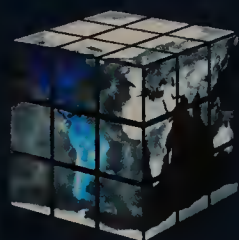


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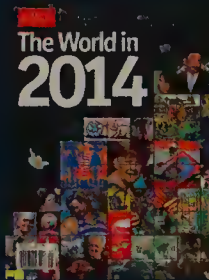
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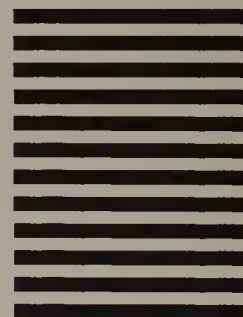
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Dark energy: non-existent or all-powerful?

## I HAVE A DREAM

THAT ONE DAY ON THE RED HILLS OF GEORGIA THE SONS OF FORMER SLAVES AND THE SONS OF FORMER SLAVE OWNERS WILL BE ABLE TO SIT DOWN TOGETHER AT THE TABLE OF BROTHERHOOD.

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THAT MY FOUR LITTLE CHILDREN WILL ONE DAY LIVE IN A NATION WHERE THEY WILL NOT BE JUDGED BY THE COLOUR OF THEIR SKIN BUT BY THE CONTENT OF THEIR CHARACTER.

**Fifty years on,  
how is the dream doing?**





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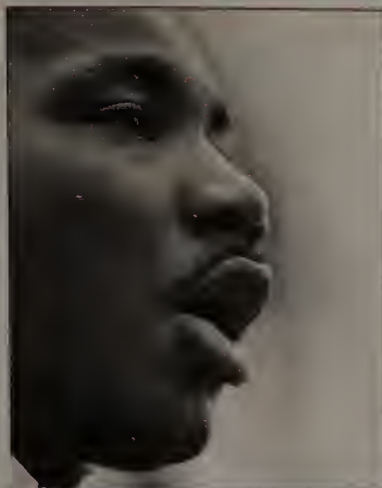
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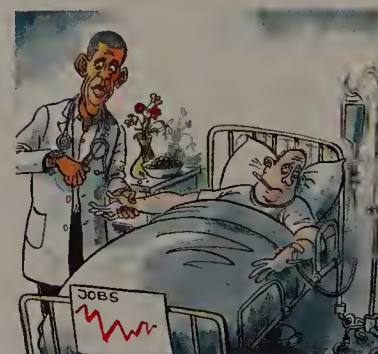
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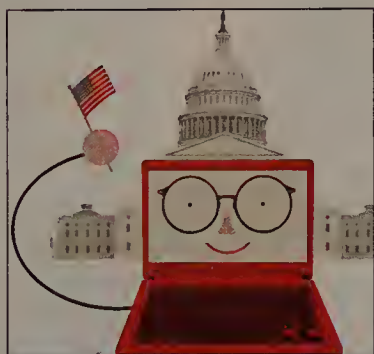


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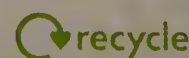
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## Politics



**Syrian** opposition groups accused government forces of using chemical weapons in attacks on suburbs of Damascus, killing—they claimed—hundreds of people. Bashar Assad's regime dismissed the claim, but if proved true it would be the deadliest use of chemical weapons since Saddam Hussein killed 5,000 Kurds in a poison-gas attack on the town of Halabja in 1988. The onslaught in Syria came during a visit by UN weapons inspectors investigating previous alleged uses of chemical weapons.

Protests across **Egypt** by supporters of the Islamist government ousted by the army began to subside, as Muslim Brotherhood leaders and 1,500 disciples were rounded up following the death of around a thousand of them when police broke up sit-ins in Cairo the week before. A court ordered that Hosni Mubarak, who had ruled the country for 30 years before his fall in 2011, be freed from prison on bail.

Abubakar Shekau, the head of Boko Haram, a guerrilla group whose campaign for an Islamist state in northern **Nigeria** has left about 3,000 people dead over the past four years, may have been killed, according to security forces. However, a video showing a man who looks like Mr Shekau, and alive, soon emerged.

### Irrational thinking

In **India** a prominent campaigner against spiritual quacks was murdered in Pune, in Maharashtra state. Narendra Dabholkar argued that black magic and other "fraudulent"

spiritual practices were used to oppress the poor. Maharashtra rushed through an emergency law banning such practices based on local superstitions.

Pervez Musharraf, **Pakistan's** former president and army chief, was charged in connection with the murder of Benazir Bhutto, a former prime minister who was assassinated in a suicide attack in 2007. Since returning from self-imposed exile in March Mr Musharraf has faced a number of charges, including treason. His supporters claim this is all just retaliation from his political opponents. The Pakistani Taliban is widely thought to have killed Bhutto.

Japan's nuclear agency said a leak of radioactive water from a storage tank at its **Fukushima Dai-ichi** plant had been raised from level one to level three on a seven-point warning scale. The shares of the plant's owner, TEPCO, dived.



The trial of a former Communist high-flyer, Bo Xilai, began in Jinan, eastern **China**. Mr Bo, formerly the Communist Party chief of Chongqing and a member of China's ruling Politburo, fell suddenly from grace in March 2012 after his wife was implicated in the murder of a British businessman and his police chief fled to an American consulate.

**South Korea** and **North Korea** agreed to reopen the joint Kaesong industrial zone closed earlier this year because of a tantrum by the North. Brief family reunions may also resume after a three-year hiatus. The South's president, Park Geun-hye, claimed the breakthrough as proof of the value of her "trustpolitik".

Beyond a need for hard currency, it is not clear what will hold the North to the agreements.

### Emerging-market gloom

**Mexico** sharply cut its 2013 growth forecasts to 1.8% from 3.1%, after the economy unexpectedly shrank by 0.7% in the second quarter compared with the January-to-March period. It is its first quarterly decline in four years. Like many other emerging markets, Mexico has been hit by sluggish exports.

**Ecuador's** president, Rafael Correa, withdrew a six-year-old offer to rich countries to refrain from drilling for oil in an area of pristine rainforest, if they paid the country \$3.6 billion for the environmental benefits. The programme had raised only \$13.3m, he said.

**Colombia's** FARC guerrilla group admitted for the first time that it bore some responsibility for acts of cruelty during the country's decades-old insurgency. Its admission may help peace talks with the government taking place in Havana, Cuba.

### Hero or villain?

**Bradley Manning** was sentenced to 35 years in prison for leaking sensitive documents to WikiLeaks. The prosecution had asked for 60 years. He was also given a dishonourable discharge from the army. Mr Manning, who was found guilty of most of the charges brought against him at a court-martial last month, said he meant no harm but had wanted to bring attention to American misdeeds during the Iraq war. The judge in the case decided he had been "wanton and reckless" and had increased the danger for others.

The release of a declassified document showed that the **National Security Agency** had been severely reprimanded in 2011 by the secret court that oversees its activities, for possibly illegally harvesting e-mails from American citizens. The Foreign Intelligence Surveillance Court said the NSA had misrepresented its actions in hearings.

Around 100 objections were filed by creditors, unions and residents against **Detroit's** plan to enter bankruptcy protection, the largest filing by a city in American history. Most of the objections were to the proposed cuts to public pensions. A hearing on Detroit's bankruptcy petition will be held in late October.

### No holiday in Greece

**Germany's** finance minister, Wolfgang Schäuble, broke a political taboo by saying that Greece would require another bail-out. The IMF thinks it will need €11 billion (\$14.7 billion), but Chancellor Angela Merkel, who is seeking re-election in September, has dismissed such talk. The European Union's Olli Rehn proposed an extension in loan periods. In **Greece** the privatisation agency's chief was sacked for accepting a flight in a tycoon's private jet.



Mrs Merkel laid a wreath and met survivors at Dachau, a **Nazi concentration camp** where 30,000 people died, most of them political prisoners. It was the first such visit by a German chancellor. She said it filled her with "deep sadness and shame". Critics said an election-campaign stop at a nearby beer tent soon afterwards was tasteless.

**Czech** lawmakers voted to dissolve parliament, meaning elections in late October in which a left-wing victory is likely. The centre-right government collapsed amid a series of scandals involving sex, spying and bribery.

**Norway** and **China** ended a diplomatic stand-off, dating from the award in Oslo in 2010 of a Nobel peace prize to Liu Xiaobo, a dissident.



## Business

India was plunged into financial turmoil. Markets swooned in response to the government's imposition of capital controls on domestic investors to stop cash flowing out of the country in order to halt the decline of the **rupee**. Investors fret that India's large current-account deficit makes it particularly exposed to capital flight out of emerging markets prompted by the Federal Reserve's plan to taper quantitative easing. As share prices in Indian banks fell and Indian bond yields rose, the central bank promised to intervene to boost liquidity.

### Currencies against the dollar

January 1st-August 21st 2013

% change

20 15 10 5 -0 +5

Chinese yuan

Indonesian rupiah

Turkish lira

Argentine peso

Indian rupee

Brazilian real

South African rand

Source: Bloomberg

However, the rupee fell to a new low against the dollar after the minutes from the Fed's latest meeting confirmed it was on track to ease bond-buying this year. Currencies in other **emerging markets** also came under pressure. In a surprise move **Turkey's** central bank raised interest rates to support the lira. The **Brazilian real** sank to its lowest level against the dollar in four years.

### Falcone has his wings clipped

The **Securities and Exchange Commission** fined **Philip Falcone** and Harbinger, the hedge fund he runs, \$18m for his misuse of clients' cash to pay a tax bill. More importantly, Mr Falcone had to admit to wrongdoing, the first such admission under the SEC's policy of reducing the number of deals it cuts with defendants in which they neither admit nor deny guilt.

Two **electronic-trading** mishaps further undermined confidence in automated markets. A sudden spike in the

Shanghai stockmarket was caused by a computer glitch at **Everbright Securities**. Chinese regulators banned the broker from proprietary trading for three months as a result. And a software error at **Goldman Sachs** saw it place enough mistaken orders for stock options on American exchanges to drive prices lower. The blunder could potentially cost the bank hundreds of millions of dollars.

**BHP Billiton's** net profit for the year to June fell by 30%, to \$10.9 billion. The mining company is to invest heavily in potash, an ingredient used in fertiliser and for which there is a burgeoning demand worldwide. This should offset some of its decline in prices for iron ore and copper, as the Chinese-led commodities boom cools.

**Glencore Xstrata** reported its first earnings since merging as a new company in May, and announced a \$7.7 billion write-down of its mining assets.

**Vestas**, a Danish maker of wind turbines, replaced its chief executive, after its quarterly earnings revealed steeper losses. Once a leader in the industry, Vestas's windpower business has been buffeted by competition from China; it

also gets less from European subsidies for green energy. **Anders Runevad**, who used to work at **Ericsson**, a Swedish telecoms firm, is the new boss.

### Brewers' droop

**Carlsberg** and **Heineken** saw profits slip in their latest set of earnings, partly because the cooler-than-usual European spring watered down the demand for beer. Carlsberg said the closure of outdoor beer kiosks in Russia in an effort to curb public drunkenness had also hurt it. Both companies pointed to Asia as a bright spot.

The **Bank of Israel** issued new rules to banks on mortgages, including a requirement that monthly repayments be no more than half of a borrower's household income. Lending has surged over the years, though the economy is slowing and unemployment rising.

Meg Whitman's turnaround plan for **Hewlett-Packard** hit a bump in the road, when she said she now no longer expects to see a return to revenue growth next year after almost all its divisions recorded a drop in quarterly sales. HP's big push into computer servers has so far failed to offset the decline of its PC business.

A judge refused **Carl Icahn's** request to speed up his lawsuit to stop the proposed buy-out of **Dell**, the latest setback to the activist investor's alternative takeover proposal for the computer-maker. A postponed shareholders' vote is now due to take place on September 12th. Dell, meanwhile, reported a 72% drop in quarterly net profit, after heavily discounting sales of its PCs and servers.

**Al Jazeera** began broadcasting on its new news channel in the United States, building on the network of **Al Gore's** Current TV, which it bought in January. With bureaus in 12 American cities, the Qatari company promises to provide an alternative on cable to CNN, Fox and MSNBC.

### That lost Kodak moment

A judge approved **Eastman Kodak's** plan to restructure and leave bankruptcy protection, which it filed for in January last year. The company has shed its photography business (and \$4.1 billion in debt) to focus on commercial printing technologies. It designed the world's first working digital camera in 1975, only to discard the project and stick to film.

Other economic data and news can be found on pages 80-81



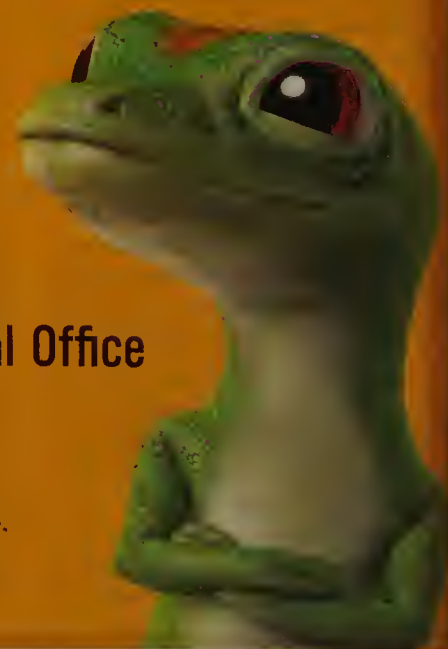


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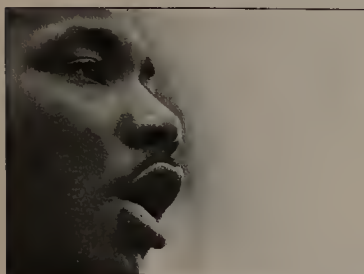
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# Chasing the dream

Fifty years after Martin Luther King's speech, fixing America's racial ills requires a new approach



**H**IS name adorns schools, streets, bridges and colossal biographies. Almost as soon as they can talk, American children are taught to revere Martin Luther King. His message was a simple clarification of America's founding promise, that "all

men are created equal" and have a right to "life, liberty and the pursuit of happiness". That means everyone, he explained. He put it best on August 28th 1963, ad-libbing before a crowd in Washington, DC: "I have a dream that my four little children will one day live in a nation where they will not be judged by the colour of their skin but by the content of their character."

In the 50 years since then, America has changed beyond recognition (see pages 24-26). Under Jim Crow, blacks in the South risked lynching if they tried to register to vote. They were forced to use separate and inferior water fountains and schools. They were locked in lowly occupations: in 1940, 60% of black women with jobs were domestic servants.

Now, African-Americans are more likely to vote than any other racial group, at least if Barack Obama is on the ballot. White bias against non-white candidates is hard to detect. The governor of lily-white Massachusetts is black; Mr Obama won more of the white vote in 2008 than John Kerry did in 2004. In King's day, inter-racial love was illegal in many states. Today, 15% of new marriages cross racial lines; for black men, the number is 24%. In King's day, segregation was the law in the South and the norm in the North. Today, "all-white neighbourhoods are effectively extinct", finds a recent study by Edward Glaeser and Jacob Vigdor, and segregation is declining in all 85 of America's largest metropolitan areas. No one today finds it odd to see blacks running big cities (Washington, Philadelphia, Denver) or big companies (Merck, Xerox, American Express) or playing God on the silver screen (Morgan Freeman). Black earnings shot up after the civil-rights revolution, both in absolute terms and relative to white.

## Progress, interrupted

Yet in recent years economic progress has stalled. Between 2000 and 2011, black median household income fell from 64% to 58% of the white figure. The wealth gap is even more alarming. Because mortgaged homes make up more of poorer people's wealth, the gap widened dramatically after the housing bubble burst. In 2005 white families' median net worth was 11 times that of blacks; in 2009 it was 20 times. On other measures, too, blacks fare poorly. Many struggle in school: the average black 17-year-old reads and manipulates numbers about as well as a white 13-year-old. Many fall foul of the law: by the age of 30-34 one black man in ten is behind bars; the figure for white men is one in 61. And the traditional black family has collapsed since King's day. In the 1960s many thought it a crisis that nearly 25% of black children were born out of wedlock. Today it is 72% (for whites, 29%), and most of these children are being raised by mothers who are truly alone, not cohabiting.

Explanations of these figures tend to fall into two camps.

Some stress the lingering effects of racism. Black schools are underfunded; employers overlook black job applicants; the criminal-justice system is biased against blacks. If this diagnosis is correct, the best prescription may be more funding for inner-city schools, sterner enforcement of anti-discrimination laws and better training for cops and judges.

It seems unlikely, however, that racism has grown worse in the past decade. To express a racist opinion in America today is a career-ending mistake. Firms caught discriminating are punished both by the courts and by consumers. Those failing black schools are not a racist conspiracy: many answer to black mayors, just as federal prosecutors answer to a black attorney-general. Polls suggest that racism is dwindling: the young are far less bigoted than the old. And the obstacles that racism creates are not insuperable. The median earnings for black and white women with college degrees, for example, are about the same.

Conservatives, black and white, tend to argue that although racism still exists, it is largely up to blacks to solve their own problems. Americans who finish high school, work full-time and wait until they are 21 and married before they have children have only a 2% chance of being poor. Depressingly few blacks meet all three fairly basic conditions.

## Jim Crow's shadow

Yet although individuals are ultimately responsible for their own fate, the legacy of discrimination is hard to shake off. Poverty begets poverty, even more now than in the past: as technology advances, those who struggle at school are falling further behind in the workplace. And the economic crisis hit single-parent families hard, since they lack the safety net that a second adult provides.

There are ways in which the government can help blacks, not by tackling racism head-on, but by addressing flaws in the American system that hurt blacks more than whites. The scandal of the justice system is not that it is biased, but that it is brutal. Locking up non-violent drug offenders for decades tears families apart. Far better to give minor criminals of all races drug treatment, ankle tags and help finding jobs.

Likewise, experience shows that inner-city schools cannot be fixed by throwing money at them. Many are run for the benefit of unsackable teachers, rather than pupils. And as Mr Obama has observed, many black students sneer that a classmate who reads is "acting white"—and shun him. This self-destructive cultural norm is almost non-existent in private schools, which is one reason why black parents are so keen on vouchers and charter schools. When reformers call school choice "the new civil-rights struggle", they have a point.

There is not a great deal that politicians can do about the collapse of the black family, but school and prison reforms should help: black women, unsurprisingly, prefer partners who are neither ill-educated nor incarcerated. Role models help, too: Mr Obama inspires young black men partly because he has a wife and daughters he patently treasures and respects.

America's shameful past is fading. Skin colour is nothing like the barrier it once was. But the "pursuit of happiness" to which King referred is never easy, and never ends. ■



## India on the brink

## How India got its funk

India's economy is in its tightest spot since 1991. Now, as then, the answer is to be bold



IN MAY America's Federal Reserve hinted that it would soon start to reduce its vast purchases of Treasury bonds. As global investors adjusted to a world without ultra-cheap money, there has been a great sucking of funds from emerging markets. Currencies and shares have tumbled, from Brazil to Indonesia, but one country has been particularly badly hit.

Not so long ago India was celebrated as an economic miracle. In 2008 Manmohan Singh, the prime minister, said growth of 8-9% was India's new cruising speed. He even predicted the end of the "chronic poverty, ignorance and disease, which has been the fate of millions of our countrymen for centuries". Today he admits the outlook is difficult. The rupee has tumbled by 13% in three months. The stockmarket is down by a quarter in dollar terms. Borrowing rates are at levels last seen after Lehman Brothers' demise. Bank shares have sunk.

On August 14th jumpy officials tightened capital controls in an attempt to stop locals taking money out of the country (see page 63). That scared foreign investors, who worry that India may freeze their funds too. The risk now is of a credit crunch and a self-fulfilling panic that pushes the rupee down much further, fuelling inflation. Policymakers recognise that the country is in its tightest spot since the balance-of-payments crisis of 1991.

### How to lose friends and alienate people

India's troubles are caused partly by global forces beyond its control. But they are also the consequence of a deadly complacency that has led the country to miss a great opportunity.

During the 2003-08 boom, when reforms would have been relatively easy to introduce, the government failed to liberalise markets for labour, energy and land. Infrastructure was not improved enough. Graft and red tape got worse.

Private companies have slashed investment. Growth has slowed to 4-5%, half the rate during the boom. Inflation, at 10%, is worse than in any other big economy. Tycoons who used to cheer India's rise as a superpower now warn of civil unrest.

As well as undermining 1.2 billion people's hopes of prosperity, failure to reform dragged down the rupee. Restrictive labour laws and weak infrastructure make it hard for Indian firms to export. Inflation has led people to import gold to protect their savings. Both factors have swollen the current-account deficit, which must be financed by foreign capital. Add in the foreign debt that must be rolled over, and India needs to attract \$250 billion in the next year, more than any other vulnerable emerging economy.

A year ago the new finance minister, Palaniappan Chidambaram, tried to kick-start the economy. He has attempted to push key reforms, clear bottlenecks and help foreign investors. But he has lukewarm support within his own party and faces obstructionist opposition. Obstacles to growth, such as fuel shortages for power plants, remain. Foreign firms find nothing has changed. Meanwhile, bad debts have risen at state-run

banks: 10-12% of their loans are dud. With an election due by May 2014, some fear that the Congress-led government will now take a more populist tack. A costly plan to subsidise food hints at this (see page 38).

### Stopping the rot

To prevent a slide into crisis, the government needs first to stop making things worse. Those capital controls backfired, yet the urge to tinker runs deep: on August 19th officials slapped duties on televisions lugged in through airports. The authorities must accept that 2013 is not 1991. Then the state nearly bankrupted itself trying to defend a pegged exchange rate. Now the rupee floats, and the state has no foreign debt to speak of. A weaker currency will break some firms with foreign loans, but poses no direct threat to the government's solvency.

And so the Reserve Bank of India must let the rupee find its own level. The currency has not yet wildly overshot estimates of fundamental value. Raghuram Rajan, the central bank's incoming head, should aim to control inflation, not micromanage one of the world's most traded currencies.

Second, the government must get its finances in order. The budget deficit has been as high as 10% of GDP in recent years. This year the government must hold down its deficit (including those of individual states) to 7% of GDP. It is already cutting fuel subsidies, and—notwithstanding the pressures in the run-up to an election—should do so faster.

This is not enough to fix the government's finances, though. Only 3% of Indians pay income tax, so the government's tax take is puny. A proposed tax on goods and services, known as GST, would drag more of the economy into the net. It is stuck in endless cross-party talks. If the government can rally itself before the election to push for one long-term reform, this is the one it should go for.

Last, the government, with the central bank, should force the zombie public-sector banks to recapitalise. In 2009 America did "stress tests" to repair its banks. India should follow. Injecting funds into banks would widen the deficit, but the surge in confidence would be worth it.

There are glimmers of hope: exports picked up in July, narrowing the trade gap. But India faces a difficult year, with jittery global markets and an election to boot. Even if it scrapes past the election without a full-blown financial crisis, the next government must do much, much more to change India. Over the coming decade tens of millions of young people will have to find jobs where none currently exists. Generating the growth to create them will mean radical deregulation of protected sectors (of which retail is only the most obvious); breaking up state monopolies, from coal to railways; reforming restrictive labour laws; and overhauling India's infrastructure of roads, ports and power.

The calamity of 1991 led to liberalising reforms that ended decades of stagnation and allowed a spurt of fast growth. This latest brush with disaster could produce a positive legacy, too, but only if it persuades voters and the next government of the importance of a new round of reforms that deal with the economy's flaws and unleash its mighty potential. ■



## Syria

## A step too far

If Bashar Assad really has used chemical weapons on his own people in a big way, America must intervene



**“WE** HAVE been very clear to the Assad regime...that a red line for us is [if] we start seeing a whole bunch of chemical weapons moving around or being utilised,” said Barack Obama a year ago this week. “That would change my

calculus.” If reports from the Syrian opposition that hundreds of people have been killed by rocket-launched chemical weapons (see page 43) turn out to be true, then Mr Obama should keep his promise.

In recent months, those who previously argued for intervention in Syria have gone quiet. That’s not because the Syrian people are suffering any less—far from it. The death toll is now reckoned to be more than 100,000, 2m people have fled the country and a quarter of the population of 23m is reckoned to be displaced within it. But failure to intervene early has had consequences which strengthen the arguments against intervention. Sectarian chaos in the country has grown, undermining hopes that toppling Mr Assad would bring peace. The more fighting there is between rebel groups, the more damage giving them weapons would do. And al-Qaeda-linked rebel groups have gained strength at the expense of the more moderate ones the West would be happy to see take power. The stronger the radicals become, the weaker the case for arming the rebels.

But the use of chemical weapons would tip the argument back in favour of intervention, for three reasons. First, they are banned by international agreement, and if the rules of war are to have any force, then the world must do its best to ensure that they are respected. Second, however unwilling outside pow-

ers are to intervene, the world accepts that there are limits to the atrocities that governments may perpetrate on their people: it was the massacre of 8,000 Bosnians by Serbs at Srebrenica in 1995 that provoked outside powers to intervene decisively in Yugoslavia’s civil war. Third, America’s credibility depends on intervening. Mr Obama made no response to a previous claim of chemical-weapons use. It seems likely that Mr Assad was testing the water to see if he could get away with a bigger one. If he is allowed to, nobody will take American threats seriously, at least while Mr Obama is president. Why should Iran or North Korea, for instance, listen to him hector them about their nuclear weapons programmes?

### Tread carefully but firmly

Nobody should act rashly in the wake of this report. The opposition’s claims need to be verified. A United Nations inspection team, already in the country to investigate the earlier allegations, needs to do its utmost to get to the site where the latest attacks are said to have taken place.

If the reports turn out to be correct—or the inspectors are not given a chance of verifying them—then the world needs to take action. America should not shoulder the burden alone. China and Russia, who have supported Mr Assad’s regime, must also accept their responsibility to uphold a standard of behaviour to which even they have signed up. But if they are not persuadable, then America and its allies should consider the full range of hard options, from strikes to limit Mr Assad’s fighting capacity, to destroying his air force, to imposing no-fly zones in the country.

This paper believes that America is generally a force for good in the world. If Mr Obama does not keep his promises, it will no longer be much of a force at all. ■

## Fracking

## Dash for cash

If Britain wants an American-style energy boom, it should import American-style local taxation



**“T**HERE are many, many more of us than there are of you,” shouted protesters in Balcombe, a village in southern England with an exploratory drilling rig and a population swollen by eco-warriors, to the police and the frackers. Sadly,


they are right. Britons are broadly opposed to hydraulic fracturing for oil and gas, or “fracking”—at least if it might happen anywhere near their homes. Cuadrilla, an energy firm, has already been spooked into shutting down its rig.

Fracking has transformed America’s energy market and helped the country out of recession. It can create jobs, lower bills and reduce dependence on unreliable, autocratic oil- and

gas-producing countries. Once a well is drilled—something that can be done increasingly speedily—it is scarcely more of a blot on the landscape than a garden shed. Nobody knows whether the earth under Britain can be pummelled into giving up much oil and gas, although the latest estimates suggest there is a lot of the stuff. Why not start looking?

For two broad reasons, say the protesters. The first objection to fracking, favoured by Greenpeace and smaller green groups like No Dash for Gas, is environmental. Hydrocarbons, say the campaigners, are bad; the methane occasionally emitted from wells is a greenhouse gas; fracking can pollute water. The second objection, voiced more often by locals carrying “Frack off” signs, is to the lorries and disruption that come along with mining: pure NIMBYism.

The environmental objections are weak. Natural gas is far ►►



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▶ cleaner than coal. America's many wells have produced little pollution—and the danger could be reduced by decent regulation. Technology is making it possible to drill many wells from a single pad and to reuse the water that is pumped in.

Oddly, the NIMBYS have a stronger case. Fracking is indeed a nuisance, particularly while wells are being drilled. Lorries clog the roads. Workers spend money locally—but they also get drunk and fight locally. In western Wyoming, rising crime strikingly tracked an increase in drilling.

### Stuff their mouths with cash

Fracking has boomed in America partly because local people have been paid off handsomely. Landowners can sell the rights to the hydrocarbons under their fields. States tax extracted oil and gas, and redistribute much of the revenue to the affected counties, which spend it on glorious schools and fire stations. America has NIMBYS too—and some states have banned fracking outright—but money has proved a powerful salve.

In centralised Britain, by contrast, almost all the proceeds

from fracking that do not flow to miners would end up in the Treasury's coffers. Oil and gas rights are held in effect by the crown, not landowners. George Osborne, the chancellor of the exchequer, sets the tax on shale-gas production: it is 30%, much lower than taxes on North Sea fields. Mining firms pledge to pay £100,000 per well and 1% of revenues to local communities (not yet defined). As a result of a broad reform to business rates, local authorities may also be able to keep a share of the rates paid by energy firms, subject to complex calculations. This is simply too small and too vague a lure.

The ideal solution would be to radically decentralise the tax system and allow local authorities greater freedom to set extraction taxes—which would encourage miners to go where they are least disliked. Unfortunately, the government is unlikely to loosen its grip over taxation. But one simple change would help. Following long protests against wind farms, in April the rules were changed to allow local authorities to keep all the business rates paid by turbine installers. Do the same for fracking. ■

### Central bankers

## The apprentices

**If new monetary-policy tools are to work properly, bankers must sacrifice flexibility for certainty**



WHEN central bankers meet for their annual get-together in Jackson Hole, Wyoming, on August 22nd their cheery greetings will hide deeper anxieties. Central banking has changed: new policies are being tried out. Yet in many countries, including America, Britain and Japan, the new “unconventional” tools are not working very well.

Before the financial crisis central bankers merely had to master the art of moving one main lever (short-term interest rates) up or down in quarter-point increments, to influence growth and inflation. After the crash, even pulling the lever down to zero failed to stimulate enfeebled economies. So central banks have tried two new policies. One is buying assets like long-term bonds to push down long-term interest rates. The other is “forward guidance”, a promise to keep short-term interest rates low until specific targets (such as a particular unemployment rate) are met.

But expectations cannot be moved about with the fine control once exercised over short-term rates; many other factors can influence what people expect. Asset purchases have an uncertain impact, too. The Federal Reserve has bought assets worth \$2.8 trillion in five years. Over the same period foreign investors have bought \$2.3 trillion of the same kinds of assets. These investors move interest rates too—sometimes in a way central banks welcome, sometimes not (see *Free exchange*).

So far the new tools have had mixed success. Rich economies are stronger than they would have been without them. But across the G7 countries there are 27m unemployed workers. With ample spare capacity, there is little risk of runaway inflation. Yet long-term interest rates are rising. In America ten-year bond yields have risen by 90 basis points since the Federal Reserve hinted, in May, that it planned to slow the pace of

bond-buying. Market rates have risen in Britain too, despite the Bank of England's recent adoption of forward guidance. This is the opposite of what the central bankers intended, and risks choking the economic recovery. Clearly, they need to learn to use their new tools better.

The Fed is sending confusing signals—hinting at slowing the pace of bond purchases but simultaneously promising that monetary conditions will stay loose. And for all the talk of forward guidance, it has been vague about what the pace of “tapering” might be. This cacophony is unlikely to reassure those on the verge of a big investment.

Commitments to keep rates low should be strong ones. Britain's interest-rate setters recently promised to keep rates low until unemployment falls to 7%. But a list of fuzzy get-out clauses weakens that pledge. And Mark Carney, the bank's new boss, fudged it further by calling the guidance a “clarification” rather than a policy shift.

### Sharpen up

In both cases, the central banks are choosing flexibility over commitment. The Fed wants to keep monetary conditions loose, but worries about asset bubbles. The Bank of England wants to keep interest-rate expectations pinned down, but fears inflation. If the central bankers are unsure what their priorities are, it is small wonder that markets are confused.

Resolving these tensions may demand sacrificing some flexibility for the certainty that more binding commitments provides. The Fed should lay out how fast and under what conditions it will reduce bond purchases. A bolder option would be an explicit target for nominal GDP (which combines both inflation and output). A promise in Britain to, say, keep rates low until GDP is a tenth or so higher would be a pledge to stick with low rates even if that meant higher prices. It would put the new tools in a fresh framework. By giving a nudge to interest-rate expectations, it could be exactly what is needed. ■



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### Doing business in Cuba

SIR – I enjoyed reading your article about my misfortunes, albeit many months after publication and in the company of fellow inmates at a Cuban high-security prison. I would ask you to correct the impression that you gave in the May 19th 2012 edition (“Come and see my villa”) and subsequent articles that I was accused of corruption.

During my eight-month interrogation in the Villa Marista counter-intelligence headquarters I was accused of many things, starting with revelations of state secrets, but never of corruption. After a further seven months I was finally charged and sentenced for participating in various supposed breaches of financial regulations.

The fact that the central bank had specifically approved the transactions in question was considered irrelevant by the judges. I am thankful, however, that at the sentencing hearing they gave me a conditional release date a few days before the trial (thus conveniently justifying my 15 months in prison). Bizarrely, the sentence was non-custodial. So my Kafkaesque experience at the sharp end of Cuban justice ended as abruptly as it began.

I spent time with a number of foreign businessmen arrested from a variety of countries, although representatives from Brazil, Venezuela and China were conspicuous by their absence. Very few of my fellow sufferers have been reported about in the press and there are many more in the system than is widely known. A few of them are being charged with corruption but many are not and the accusations range from sabotage, damage to the economy, tax avoidance and illegal economic activity. It is absolutely clear that the war against corruption may be a convenient political banner to hide behind and one that foreign governments and press will support. But the reasons for actively and aggressively pursuing foreign businesses are far more complicated.

Until the law relating to foreign investment and commerce is revised and the security service changes its modus operandi for enforcing these laws, Cuba will remain extremely risky for non-bilateral foreign business. Foreign executives should be under no illusion about the great personal risks they run if they choose to do business there.

STEPHEN PURVIS  
*London*

### Hot rocks

SIR – Contrary to what you assumed, it is still easy to sell stolen diamonds (“Another French exception”, August 3rd). The Kimberly Process Certification Scheme applies to rough diamonds and the diamonds stolen in Cannes in recent years were polished. All a thief needs to do is polish off any inscriptions on the diamond and resubmit it for a new lab certification. Only the very large and deeply coloured diamonds would be unusual enough to need to be recut before being sold on to a legitimate buyer. Professional thieves have all this planned out before doing a job.

As for most of the heists taking place in Europe, that is where the diamonds are: 80% of the world’s diamonds by value are traded through Antwerp alone each year.

SCOTT ANDREW SELBY  
*Laguna Niguel, California*

### Cool on Summers

SIR – You kindly reminded us that *Time* named Larry Summers a member of “the committee to save the world” for the way he managed the financial crises of the 1990s (“Summers v Yellen”, August 10th). What you did not mention is that as Treasury secretary under Bill Clinton, Mr Summers was instrumental in undoing the main provisions of the Glass-Steagall Act, which had limited the types of risky activities banks could get involved in. Nine short years after the repeal of that act America had its worst financial crisis since the Depression.

Mr Summers has also been

an outspoken critic of regulating the derivatives market, which is estimated to be worth \$639 trillion. If (more likely when) this market crashes, the havoc that will be wrought will make the financial crisis of 2008 look like a picnic at the beach. By deed and by word, Mr Summers has shown that he is not fit to run the Federal Reserve.

TOM MCNAMARA  
Assistant professor  
ESC Rennes School of Business  
*Rennes, France*

### Flight record

SIR – Quoting a statistic from Boeing you suggested that Chinese airlines are safer than their American counterparts (“Crowded skies, frustrated passengers”, August 10th). My research finds otherwise. Between 2000-07, the passenger death risk per flight was 1 in 3.3m on Chinese airlines and 1 in 14m on American carriers. Between 2008-12, the Chinese record improved to 1 in 26m but the American figure was even better at 1 in 47m. The greater efficiency of American aviation was not achieved at the price of lesser safety.

ARNOLD BARNETT  
Professor of management science  
MIT Sloan School of Management  
*Cambridge, Massachusetts*

SIR – Your article reminded me of a flight I took from Guangzhou to Hong Kong in 1988. There were no cabin attendants and shortly before take-off the co-pilot rolled a trolley down the aisle, laden with mysterious-looking bags of goodness knows what.

Suddenly, he stopped handing out the snacks and pushed the trolley frantically back towards the cockpit in a dead run. The pilot barked over the loudspeaker to “Stop smoking and sit up straight”. The plane lunged forward and sped down the runway.

When we arrived in Hong Kong we were told that the previous flight had gone off the runway and fallen into the water.

JOHN MARTIN  
*Ithaca, New York*

### Forestry’s German roots

SIR – Simon Lloyd’s letter (July 27th) about the German influence on British silviculture brought back memories of my tenure as minister for environment and forests in India. On my very first day I discovered that the first three men who headed the Indian Forest Service in the late-19th and early-20th centuries were Dietrich Brandis, William Schlich and Berthold Ribbentrop. Brandis was, incidentally, the guru of Gifford Pinchot, the father of American forestry.

JAIRAM RAMESH  
Minister for rural development  
*Delhi*

### Bonnes vacances!

SIR – Reducing mandated vacation days in Europe will be even more difficult than Charlemagne thinks (August 3rd). European courts have ruled that a worker who gets sick before going on holiday can reschedule the vacation. That ruling was extended in June 2012 to include a person who becomes ill during a holiday, stopping the “vacation clock” and redefining those days as sick leave.

Only when the worker felt well enough to continue with his holiday would the vacation clock start again.

IRA SOHN  
Professor of economics  
Montclair State University  
*Upper Montclair, New Jersey*

### Red cheeks all round

SIR – Your article on the state of Britain’s coalition government used “dominatrices” as the plural of dominatrix (“Enter the van men”, August 3rd). Whoever wrote that, rather than “dominatrices”, deserves a good spanking.

JOHN BRISBY  
*Cambridge, Cambridgeshire* ■

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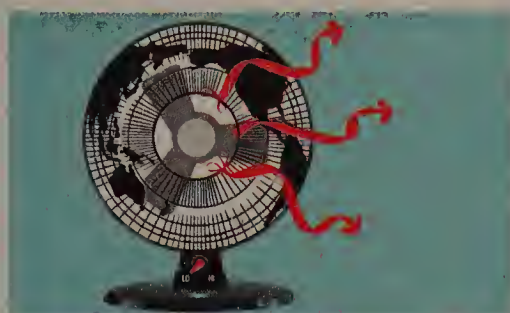
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## Debate: The BRIC economies

Emerging markets account for more of the world's GDP than advanced economies, but a "great deceleration" seems to be under way in countries such as China and India. Is the fastest period of emerging-market growth behind us? Join the debate



## Our new Anthology series

The Innovation app, on sale in the App Store, is the first in a series of themed iPad apps that package together articles, video and interactive features. It covers the future of cars, the outlook for nuclear power and the frontiers of computing



## Germany decides

With a month to go before the German parliamentary election on September 22nd our Berlin bureau chief launches a German-election diary on our Charlemagne blog. His first post explains what to expect in the coming weeks

### From our blogs



#### Asia: Who owns Bangladesh?

The country owes much of its recent progress to its women. It also owes them more of its land, as their share is estimated to be as little as 2%



#### Chart: Fantasy football manager

*The Economist* "moneyballs" the English Premier League and shows a data-driven way to find cut-price replacements for expensive football players



#### Culture: Best and brightest

Amanda Ripley discusses "The Smartest Kids in the World", her new book about what schools in Finland, Poland and South Korea are doing right

### Most read



1

Facebook is bad for you  
Get a life

2

#### Self-help

Be a sociopath, or just act like one

3

#### The future of transport

No loopy idea

4

#### Egypt's crisis

The storm before the storm

5

#### Schumpeter

In praise of laziness

### Featured comment

*"British Airways, Air France, Iberia, Alitalia and Lufthansa should splinter into 40 or more new entities. We need another 40 airlines like Ryanair, Wizz Air, easyJet and airBaltic to replace the incumbents—and for that to happen the incumbents must first be swept away in a bloodbath of insolvencies."*  
—"Not the American way", August 14th



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- Degree in business/economics/finance
- 5-10 years of professional experience including experience in best-practice financial management of a bank/financial sector institution
- Proven work experience with key refinancing instruments such as syndicated loans, bonds and equity-type of products
- Work experience with exposure to Eastern Europe/Central Asia
- Ability to integrate into the team and to train and motivate staff
- Strong English written and verbal communication skills; effective way of communication in general
- Excellent IT skills; familiarity with implementing and working with complex integrated management information and accounting systems
- Ability to work in Russian is a strong asset

Please send your CV along with a motivation letter to [hr@lfs-consulting.de](mailto:hr@lfs-consulting.de) reference: CFO/EC67



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Economic Cooperation  
Secretariat

### Chief of Staff of the APEC Secretariat

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Closing date is Wednesday 25 September.

[thecommonwealth.org](http://thecommonwealth.org)



## DIRECTOR GENERAL

International Potato Center (CIP)

CIP (Centro Internacional de la Papa, or the International Potato Center) is one of the 15 research centres of the CGIAR Consortium, which is a global agriculture research partnership for a food secure future.

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We seek a **highly experienced and exceptional professional who has:**

- An international reputation in a relevant branch of agricultural sciences and demonstrated capacity to maintain a culture of scientific excellence
- Ability to lead, inspire and manage change in a multi-cultural and multi-disciplinary environment, in order to foster teamwork that delivers outstanding achievements
- Strong strategic leadership and a management record of success relevant to agriculture and rural development in developing countries
- Superior skills in resource mobilization, alliance building and developing partnerships with scientific, development and policy communities in the public and private sectors
- Outstanding strategic and tactical communication, diplomatic and interpersonal skills; excellent command of English; knowledge of other major international languages, an advantage.
- a PhD or equivalent in an agriculturally-related science, and a minimum of 15 years progressively responsible leadership experience

Kincannon & Reed has been retained to assist with this recruitment effort. A cover letter and detailed CV should be submitted by 25 September 2013 via email to [gdooman@krsearch.net](mailto:gdooman@krsearch.net).

*We thank all applicants for their interest and will contact those candidates whose skills and experience best match the requirements of the position. We are particularly interested in developing country and female candidates.*





Internal  
Audit  
Unit

## Director, CGIAR Internal Audit Unit

CGIAR is a global agricultural research partnership for a food secure future. Its science is carried out by the 15 research centers who are members of the CGIAR Consortium in collaboration with hundreds of partner organizations. The 15 members of the consortium have a staff of over 10,000 employees and operate in over 50 countries.

The Consortium is looking for a dynamic and mission-oriented individual to lead our Internal Audit Unit (IAU) which operates as a shared service to our members. The IAU provides independent assurance and strategic advice designed to add value and improve the centers' operations. The Director will ensure that IAU business objectives are met, resources are employed efficiently and effectively, and that audit work conforms to international professional standards. Based at the Consortium Office in Montpellier, France, the Director will report functionally to the Consortium Board on CRP Audits, individual Center Boards on Center Audits and administratively to the Consortium Director of Finance and Corporate Services.

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The closing date for applications is **8 September 2013**. Interviews will be held on 10/11 October 2013 in Montpellier, France.

For full details about this position, terms and conditions of appointment, and how to apply online, please visit [http://www.bioversityinternational.org/about\\_us/job\\_opportunities.html](http://www.bioversityinternational.org/about_us/job_opportunities.html)

Body of European Regulators  
for Electronic Communications

**BEREC**  
OFFICE

BEREC Office, set up to provide administrative and professional support to the BEREC (Body of European Regulators for Electronic Communications), has the following vacancy:

## Administrative Manager (Grade AD14)

**Location:** Riga, Latvia

**Ref:** BEREC/2013/02

**Deadline for the application:** 19 September 2013

The Administrative Manager will be appointed to the staff of the Office as a temporary agent at grade AD14 pursuant to Article 2(a) of the Conditions of Employment of Other Servants of the European Communities for a three-year period, which may be extended once, but not for more than three years.

For qualifications and experience required, as well as further details, please see the vacancy announcement on the BEREC Website [www.berec.europa.eu](http://www.berec.europa.eu)

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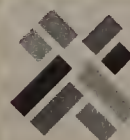
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*ITC does not discriminate on the basis of gender, race, nationality, religion or other social criteria. ITC is fully committed to the implementation of the resolutions of the United Nations General Assembly for gender mainstreaming and applications from qualified women and men are equally welcome.*





## Waking life

PHILADELPHIA, MISSISSIPPI

**With his “I have a dream” speech, Martin Luther King threw out a challenge to America. How has it been met, 50 years on?**

IN A corner of the immaculate lawn of Mt Nebo Missionary Baptist Church, in Philadelphia, Mississippi, lies a long tombstone adorned with fresh flowers. Nobody is buried there; the stone is a memorial to James Chaney, Andrew Goodman and Michael Schwerner, three young men who came to Neshoba County, of which Philadelphia is the seat, in the summer of 1964 to register black voters. On June 21st Klansmen allied with the county police stopped their car, shot all three at close range, and buried them under a dam.

Ten months before his death, on August 28th 1963, Goodman, then a student at Queens College in his native New York, heard the state where he would die described by Martin Luther King as “sweltering with the heat of injustice, sweltering with the heat of oppression”. He was one of hundreds of thousands who joined the March on Washington for Jobs and Freedom, the greatest demonstration of America’s civil-rights era, and heard King’s “I have a dream” speech delivered from the steps of the Lincoln Memorial.

The speech is remembered principally for its stirring rhetoric, in particular its vision of a future in which King’s children would “not be judged by the colour of their skin but by the content of their character.” At its core, however, is a simple, radical

and, most important, correct argument. King explains that the demonstrators have come “to cash a cheque.” America’s constitution and declaration of independence were “a promissory note ... that all men—yes, black men as well as white men—would be guaranteed the unalienable rights of life, liberty and the pursuit of happiness.” The demonstrators were asking merely for the rights guaranteed to all Americans by the country’s founding documents. Segregationists, therefore, were not just bullies and bigots; they were failures as Americans, because they misunderstood or ignored the country’s fundamental premise. King presented his dream, gloriously and specifically, as the American dream.

### The promises of democracy

After 50 years, legal segregation is a distant memory, and race in America is not the unbridgeable chasm it once was. The country has a black president. The sort of comity that King evoked, in which the descendants of slaves and of slave owners “sit down together at the table of brotherhood”, can be found in many places, including the Deep South. The rate of marriage between blacks and whites is rising.

But America has not entered—as many hoped it would at the time of Barack

Obama’s election—a “post-racial” phase. Blacks remain likelier than whites to lack jobs, be poor, get arrested and serve time in prison. Residential segregation of blacks from other races is declining, but still persists. After years of narrowing, the gap between black and white median income widened from 2000 and 2011, and the gap in household wealth is enormous. The work of the civil-rights era, it would seem, is not yet done. But the work has changed, and now it falls to different hands. The responsibility for ending segregation and repealing racist laws lay mainly with the government. Government’s role in narrowing the racial gaps that persist, though, is smaller and less clear.

King’s speech laid out four major grievances: discrimination by private businesses and local government; barriers that kept black Americans from voting; unfair treatment by police; and what might broadly be called social mobility and economic opportunity. “We cannot be satisfied”, King said, “as long as the Negro’s basic mobility is from a smaller ghetto to a larger one.”

The Civil Rights Act of 1964 directly addressed the first grievance. Signed into law by Lyndon Johnson ten months after the march, and 11 days after the murders of Chaney, Goodman and Schwerner, it was strongly opposed by southern members of Congress. It banned businesses that engage in interstate commerce (which the federal government has the authority to regulate) from refusing to serve members of the public on the basis of race; prohibited the denial of access to public facilities on the basis of race; authorised the attorney-general to sue local authorities to force school desegregation; banned discrimina- ►►



tion by the recipients of federal funds on pain of losing that funding; and outlawed discrimination by any business employing more than 25 people, creating an Equal Employment Opportunity Commission (EEOC) to respond to complaints about such discrimination in the process.

The Voting Rights Act of 1965—which, though passed with strong bipartisan support, again faced bitter opposition from southern senators and congressmen—addressed King's second grievance. It outlawed poll taxes, literacy tests and other practices designed to prevent blacks from voting. It gave the Justice Department and federal courts the power to veto proposed changes to voting procedures in jurisdictions with a history of discrimination.

The two acts had three large, lasting political effects. First, black political participation increased dramatically. In 1965 less than 7% of eligible black Mississippians, roughly 19% of eligible black Alabamans and around 32% of eligible black Louisianans were registered to vote. Congress had five black members, all representatives from northern and western cities. In 2012 the share of registered black voters in Louisiana, Mississippi, North Carolina and South Carolina exceeded that of non-Hispanic whites, and trailed it by only a little in most other southern states. In the last presidential election, black voter turnout exceeded that in any other racial category. Roughly one in ten members of the House is black; they come from 25 states and territories. Mississippi now boasts more black elected officials than any other state, though none holds statewide office.

Second, civil-rights legislation realigned America's political parties. At the time of the march Democrats had a large and durable majority in the House of Representatives, a coalition between northern and urban liberals and southern segregationists (white southerners cleaved to the Democrats after losing the civil war to

Abraham Lincoln, a Republican). The passage of civil-rights legislation broke that coalition. Strom Thurmond, a segregationist senator from South Carolina, switched parties in response to the 1964 Civil Rights Act; after him, the deluge.

During the Congress that passed the Civil Rights Act, the 11 confederate states had 128 senators and representatives; 115 were white Democrats. Those states today have 160 senators and representatives, of which just 22 are white non-Hispanic Democrats (see chart 1). When Johnson signed the Civil Rights Act into law, he reportedly told an aide that Democrats had "lost the South for a generation." It has now been at least two generations, and despite some purpling at the edges, the South remains solidly Republican. And as white southerners—along with working-class whites from northern cities, once called "Reagan Democrats"—moved to the Republican Party, most of the blacks in the party of Lincoln left. This has let Democrats take black voters for granted and Republicans ignore them, a problem which has been exacerbated by the creation of "majority-minority" seats which contain a disproportionate number of black voters.

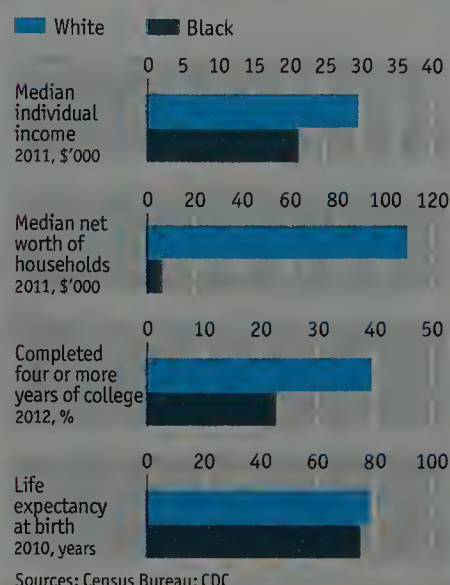
### The bank of justice is bankrupt

Third, civil-rights legislation dramatically boosted the federal government's power to enforce the 14th and 15th amendments, which promise all citizens, regardless of race, the right to vote and "equal protection of the laws". They were passed after the civil war, and the South had spent the better part of a century violating them. With enforcement power came not only increased federal reach but also expanded federal bureaucracy. The EEOC has grown from an agency with roughly 100 employees and a \$2.25m budget in 1965 (\$16.4m in 2012 dollars) to one with 2,346 employees and a \$360m budget in 2012. In 1965 Johnson signed an executive order barring racial discrimination in federal contracts. The Office of Federal Contract Compliance Programs, created to police those requirements, now enforces pro-black racial preferences. It has a \$105m budget and about 750 full-time employees.

Measured against its condition at the time of King's speech, black America's progress has been remarkable. In 1959 55.1% of blacks lived in poverty and just 4.6% of blacks between 25 and 29 had graduated from college. In 2010 38% of blacks between the ages of 18 and 24 were enrolled in a university, and most black Americans are not poor. Yet measured against other American ethnic groups black progress looks less impressive. Blacks lag behind whites in life expectancy and median income (see chart 2); they exceed whites in dropout and poverty rates.

The income disparity, in fact, is growing. The gap in median individual income

### Dreams deferred



between blacks and non-Hispanic whites rose by a third, to almost \$9,000 a year, between 2000 and 2011. But that is trifling compared with the wealth gap. The bursting of the housing bubble took a far greater toll on black families than whites, reducing their median wealth, according to a Pew Research Centre study, by 53% between 2005 and 2009 (when adjusted for inflation). Over the same period white median wealth fell by just 16%. In 2009 more than one-third of black households had zero or negative net worth, compared with 15% of white households. In 2011 the median household wealth (comprising cash, investments, homes, cars and other assets) for America's white families was \$110,500. For blacks it was \$6,314 (Hispanics were similarly badly off). A separate study by the Urban Institute found that between 2004 and 2010 blacks lost 23% of their average wealth, while whites lost 1%.

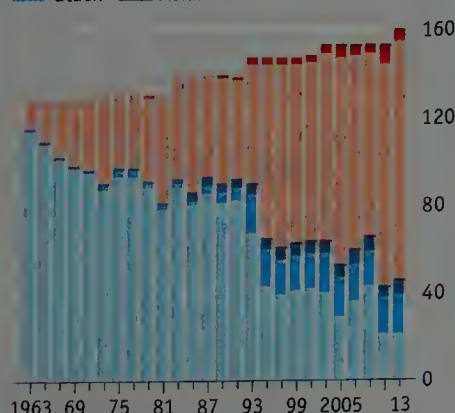
Being poorer, black children are more likely to attend substandard schools, and less likely to graduate from college, than whites. This depresses future earning power, and keeps blacks over-represented in jobs that offer no benefits or retirement plans. They have less money to put towards home-ownership, and homes account for the largest share of wealth for both black and white families. Thus low wealth perpetuates itself.

On average white families buy homes eight years earlier, and tend to be able to put down more money, thus lowering interest rates and mortgage payments. Residential segregation—sometimes but not always a matter of choice—means that many blacks live in areas where homes are worth less, and accrue value more slowly, than homes elsewhere. Because they tend to be more recent homeowners with higher-risk mortgages, blacks are more vulnerable to foreclosure. All of this makes black prosperity more precarious. A paper by Bhash Mazumder, an economist at the Chi- ▶

### The party's over

Southern states' members of Congress\*

**DEMOCRATS:** White, Black, Latino, Asian  
**REPUBLICANS:** White, Black, Latino, Asian



Source: The Economist

\*Aggregate of the 11 former confederate states



► cago Fed, found that roughly 60% of black Americans whose parents had an above-average income fell below the average as adults. The figure for whites was 36%.

America's over-punitive criminal-justice system also stymies black accumulation of wealth, as well as social mobility. In 2011, 478 of every 100,000 white men and 51 of every 100,000 white women were imprisoned. For black men the rate was 3,023 per 100,000 and for black women 129 per 100,000. This disparity cannot simply be put down to differences in crime rates: blacks are often more likely than whites to be arrested for the same crime. Young whites and blacks use marijuana, for instance, at roughly the same rate, but across the country blacks are almost four times more likely to be arrested for marijuana possession, according to the American Civil Liberties Union; in some places their arrest is over eight times more likely. People with criminal records risk losing public benefits, being kicked out of public housing and suffering permanent gaps in employment and earning prospects.

### Children stripped of their selfhood

The dissolution of the black family may do more harm to black mobility than any other single factor. Marriage is declining and out-of-wedlock births are increasing across American society. Black Americans lead the way in both. In 2011 72% of black babies were born to unwed mothers, and just 29% of black adults were married, compared with 60% in 1960. Conservatives tend to blame welfare policies, and liberals the lack of low-skill, living-wage jobs, for the decline of black marriage. Either way it has left black women as principal breadwinners in a large number of homes with children. A National Women's Law Centre study found that in 2011 black women who worked full-time earned, on average, 64 cents for every dollar a white man earned. But among black married couples with children, women are almost twice as likely to outearn their husbands as to be out-earned by them.

Still, most black children are no longer brought up in two-parent homes: in 2011 55% of black children were being raised by a single parent. Such children are four times more likely to be poor than children raised by their married parents. Ron Haskins and Isabel Sawhill, of the Brookings Institution, have found that people who finish high school, work full time and wait to have children until they are married and 21 or older have a 72% chance of joining the middle class and just a 2% chance of being poor. The numbers are reversed for those who violate all three rules.

The roots of many of these problems lie in the legacy of slavery and segregation. But the important question is not where they came from, but how to ameliorate them now. The era of race-conscious law

appears to be drawing to a close. Last June the Supreme Court invalidated an important clause of the Voting Rights Act, leaving its future uncertain. The court also set a higher bar for universities that want to use affirmative action, which several states have already outlawed.

Some have called on Mr Obama to "do more" for black Americans—but their calls tend to be longer on sentiment than substance. Nor are they warmly received. While 95% of black Americans in 2008 and 93% in 2012 voted for Mr Obama, his relationship with other black leaders is often fractious. Cornel West, a professor and commentator, has called him "a black puppet". Mr Obama told members of the Congressional Black Caucus to "stop complaining, stop grumbling, stop crying." He used his first widely seen national address—to the Democratic National Convention in 2004, when still an Illinois state senator—to urge black Americans to "eradicate the slander that says a black youth with a book is acting white."

That stereotype seems to be particularly harmful to black students. Roland Fryer, an economist at Harvard, found in a study published in 2005 that the popularity of white schoolchildren tends to increase in tandem with their academic results: the better they do in school the more friends they have. For black and Hispanic pupils, the opposite is true. Mr Fryer found this effect especially prevalent in schools that are less than 20% black, less prevalent in schools that are predominantly black and almost non-existent in private schools.

But unlike previous barriers to black progress, that posed by the "acting white" stereotype is neither imposed from the outside nor codified in law. The principal problem that black Americans faced for much of their country's history was not that some people disliked them or thought them inferior; it was that the people who disliked them and thought them inferior

had the power to write laws making them second-class citizens. That is no longer the case. As Mr Obama told a class graduating from Morehouse College, a respected and historically-black university, "Whatever you've gone through, it pales in comparison to the hardships previous generations endured—and they overcame them. And if they overcame them, you can overcome them, too."

### The true meaning of its creed

Discrimination has not vanished: the recent decision in New York to outlaw stop-and-frisk searches reflects the fact that in many places the police remain far more likely to suspect and harass innocent blacks. Voter-ID laws, while no doubt rooted in partisan rather than explicitly racial motives, still place a far heavier burden on minority voters than on white ones.

But the Mississippi that took the lives of James Chaney, Andrew Goodman and Michael Schwerner is, mercifully, gone. The state may not yet be the "oasis of freedom and justice" of King's dream, but in front of the Williams Brothers general store—which probably looks much as it did when it opened more than 100 years ago—black and white Mississippians mix easily and naturally. A few kilometres east of Williams Brothers sits the Neshoba County library, one of the stopping places on the 1966 March Against Fear from Memphis, Tennessee to Jackson, Mississippi. The march was started by James Meredith, the first black man admitted to the University of Mississippi; he was shot and wounded soon after leaving Memphis, and King and others took up the baton. It was King who spoke to the crowds at the Neshoba library.

A few blocks from that library is City Hall, where James Young, Philadelphia's mayor, has his office. In 2009 Mr Young became the first black mayor ever elected in majority-white Philadelphia. He was re-elected earlier this year. ■







### Health reform and employment

## Will Obamacare destroy jobs?

NEW YORK

### Health reform may make Americans work less

**B**EFORE the recession, Richard Clark's cleaning company in Florida had 200 employees, about half of them working full time. These days it has about 150, with 80% part-time. The downturn explains some of this. But Mr Clark also blames Barack Obama's health reform. When it comes into effect in January 2015, Obamacare will require firms with 50 or more full-time employees to offer them affordable health insurance or pay a fine of \$2,000-3,000 per worker. That alarms firms that do not already offer coverage. But for many, there is a way round the law.

Mr Clark says he is "very careful with the threshold". To keep his full-time workforce below the magic number of 50, he is relying more on part-timers. He is not alone. More than one in ten firms surveyed by Mercer, a consultancy—and one in five retail and hospitality companies—say they will cut workers' hours because of Obamacare. A hundred part-timers can flip as many burgers as 50 full-timers, and the former will soon be much cheaper.

Opinions are furiously divided as to whether the unintended harm caused by health reform will outweigh its benefits. Republicans, who have always hated the whole package, howl that it will destroy jobs. Nonsense, say Democrats; it will promote growth and boost employment. Since the law has so many moving parts, it is hard to predict who is right. But there is a risk that a lot of workers will be hurt.

American health insurance and employment are uniquely entangled. During the second world war, firms began using health insurance to woo scarce workers. Some 57% of employers now offer it, covering nearly 150m people. Company-provided insurance is not taxed, and workers like it because the alternative is abysmal. On the individual market, insurers charge the sick exorbitant rates.

All this has had strange effects on the labour market. Workers stay in bad jobs for fear of losing insurance. As the cost of insurance rises, employers lower wages. Health costs seem to depress hiring, too. A study found that from 1987 to 2005, industries that offered health insurance saw jobs grow more slowly than those that did not. No such pattern was seen in those industries in Canada, where people receive health insurance from the government.

### Land of confusion

Into this jumble comes Obamacare. From January next year insurers will no longer be allowed to charge the sick higher rates. If only the sick were to seek coverage, costs would explode, so the law requires everyone to be insured or pay a fine. To make this easier for those not already covered, Obamacare will create online shopping places for health insurance, called exchanges. People who cannot afford coverage will receive generous subsidies.

Mr Obama has said that workers who

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like their company-provided insurance will be able to keep it. This is like promising that if you like sunshine, it won't rain. Actually, it is even more misleading. When he shakes up the health-care market, employers will have no choice but to respond.

Last month Mr Obama delayed the employer mandate by a year, to give firms more time to comply. For the moment, large firms that already cover workers are unlikely to stop doing so, predicts Mercer. But coverage is changing nonetheless. Many firms are making workers pay more of their health bills. Obamacare includes a tax on generous health plans, starting in 2018, which is making some employers reconsider lush benefits. Unions, which fought for them, are livid. At the other extreme, some low-paid workers may want their employers to drop insurance, so they can receive subsidies on the exchanges.

More worrying, though, is the possibility that Obamacare may kill jobs. In 2010 the Congressional Budget Office (CBO) projected that it would shrink employment by 0.5%. The law's many provisions would pull in opposite directions. Some would raise employment, the CBO predicted. For example, by expanding Medicaid (health care for the poor) to those with higher incomes, Obamacare would remove a disincentive to work. People who might have turned down extra work for fear of losing their Medicaid would now take it, ran the argument.

Other provisions would reduce employment. Partly, this would be because employers like Mr Clark will cut jobs and hours to avoid being subject to the law. (Unions publicly fret about the threat to the 40-hour week.) But mostly, the CBO thinks it would be because people will choose to work less. Obamacare's subsidies will boost the finances of poor workers; they may therefore work fewer hours. ►►



► After examining employment and subsidised insurance in Tennessee, Craig Garthwaite of Northwestern University and his colleagues estimate that Obamacare's subsidies will prompt up to 940,000 workers to leave the labour force. Many will be older people, keen to retire early.

Another concern is that Obamacare will lower wages. For example, if firms that do not now offer insurance comply with the mandate, their costs will jump. Nearly 60% of such firms say they will offer coverage, according to Mercer. As health costs rise, they may pay their staff less. A study in Massachusetts found that, roughly speaking, every extra dollar spent on insurance comes out of wages.

The White House, however, points to various ways in which Obamacare might boost employment. By making it easier for individuals to buy health insurance, it should make it less frightening for them to switch jobs or start their own companies. Democrats claim the law will lower health costs for firms. Tax credits for small businesses will make it cheaper for them to offer health insurance. Measures to reward efficient health care will reduce the cost of treatment. If insurance becomes cheaper, firms will have more money to hire workers and raise wages. In 2010 David Cutler of Harvard University estimated that Obamacare's cost-control measures would create up to 400,000 jobs each year.

However, Casey Mulligan of the University of Chicago contends that Obamacare's distortions to the labour market will outweigh any growth from lowering health costs. By adding his estimates to those of Mr Cutler, Mr Mulligan predicts that Americans will work 3% less in 2015 than they otherwise would have.

Interestingly, the number of jobs in sectors most affected by Obamacare, such as retail, leisure and hospitality, have grown relatively quickly, notes Alec Phillips of Goldman Sachs. But the hours worked in such industries have grown more slowly, suggesting a reluctance to add more full-time jobs (see chart).

When the final diagnosis is done, Obamacare may have nasty side-effects. ■



Pre-school in Texas

## Get them while they're young

SAN ANTONIO, TEXAS

### An experiment with national consequences

**S**TARTING pre-school poses tests for any four-year-old: sitting still, the risk of a yucky lunch, missing home. The stakes are still higher for 700 small Texans due to enter pre-kindergarten centres being opened by the city of San Antonio on August 26th. They are pioneers who will be watched all the way to the White House.

Not so long ago there was broad, bipartisan support for government provision of pre-school (called "pre-k", since it precedes kindergarten): a year of classes and play designed to ensure that children are ready for the serious business of learning. Alas, pre-k has joined the long list of issues capable of provoking partisan rage. Critics include shrink-the-government types growling about expensive "babysitting", joined by social conservatives arguing that young children are best off when cared for by married mothers, at home.

Cash-strapped states have cut pre-k funding in recent years. The education secretary, Arne Duncan, notes that when it comes to enrolling four-year-olds in early learning, America ranks 28th in the OECD club of rich nations. Barack Obama used this year's state-of-the-union message to unveil a \$75 billion plan to use tobacco taxes to provide pre-k to all children from low- and middle-income families. Republicans in Congress have shown little interest. Mr Obama's government has begun channeling funds for early education directly to states. Some governors are keen. But the national debate rages on.

San Antonio's scheme has been crafted by the city's mayor, Julián Castro, to secure

the broadest possible support. Mr Castro, a centrist Democrat tipped for big things, asked a panel of business bosses to pinpoint one moment in the education cycle to be funded from a new sales tax. They looked at high-school graduation and college enrolment but finally chose pre-k, aiming at children, notably from poor and immigrant families, who reach school unready to learn and never catch up.

One of the bosses, Josue Robles—a former major-general who runs USAA, a financial firm that is San Antonio's largest private employer—calls this not welfare but an investment in workers. He already struggles to find locals with skills in maths, hard sciences and "analytical thinking".

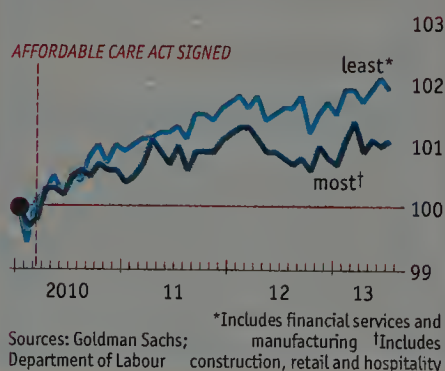
To answer critics saying that pre-k's benefits are exaggerated or fade quickly, the scheme will chart pupils' progress for years to come. Staff are being recruited on special contracts: they will be paid better than most teachers, but can be fired at will. In time, nearly 4,000 city kids a year will benefit. To attract working parents the centres will offer full-day classes, unlike existing, state-funded schemes, which typically open for half a day. In return, parents must read to pupils and support their studies.

To get popular consent, the sales-tax-for-pre-k plan was put to a citywide vote. It passed fairly easily, despite opposition in richer, whiter districts. Ideally pre-k would be universal, serving poor and middle class alike, says Mr Castro: to thrive, policy innovations must be inclusive.

They must also be seen to pay off. Those tiny San Antonians have work to do. ■

### The Obamacare effect

Average hours worked, January 2010=100  
Industries affected by Obamacare:





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## New York politics

## Campaign circus

NEW YORK

## A crowded mayor's race picks up pace

ON AUGUST 18th thousands thronged a street festival called Harlem Day. Tyrese, a popular R&B singer, got the teens screaming, a gospel choir got the crowd clapping and Bill Thompson, who is running for mayor of New York, got them all singing. Flanked by two Harlem stalwarts, Charles Rangel, congressman for the 13th district, and Hazel Dukes, head of the New York chapter of the NAACP, a civil-rights lobby, Mr Thompson walked along 135th Street shaking hands and posing for photographs. A music vendor began to play the old Motown song "Don't Mess with Bill". It seemed as if all 135th Street sang along, except for another Bill, a Harlem resident. "I don't know who I'm going to vote for," he said. "It's going to be tight."

With less than three weeks to go until the Democratic primary, the race is indeed tight. Christine Quinn, the council Speaker, is neck-and-neck with Bill de Blasio, the public advocate, a sort of city ombudsman. Mr Thompson is not far behind. Even the unions are divided. The teachers back Mr Thompson, a careful pragmatist. Health-care workers support Mr de Blasio, a down-the-line liberal who was recently arrested while protesting a hospital closure. Ms Quinn, a savvy moderate, has the support of the doormen's union. District Council 37, a large municipal union, backs John Liu, the comptroller, the city's financial watchdog, who says his support is healthier than it looks: Asians like him.

It has been a strange race and a crowded



A Red Sox fan woos New Yorkers

## Offensive pictures

## Sense and censorship

WASHINGTON, DC

## Why prisons in Missouri censor The Economist

IF YOU are reading this in a prison in Missouri, you probably didn't see the June 29th issue of *The Economist* (pictured). We recently received a letter from the Missouri Department of Corrections informing us that it had been censored.

The problem was not the cover, although it does show a semi-naked woman. Rather, the prison authorities objected to a photo accompanying an article about the Supreme Court's recent rulings on race. The picture showed a Klansman with a noose, to remind readers what race relations were like before the Voting Rights Act of 1965.

The censors thought it might instil "violence or hatred among the offender population". This is not absurd: you could imagine some of the nuance of the article being lost if, say, a white inmate were to shove the picture of the Klansman in the face of a black prisoner. Under the state's all-or-nothing rules, the entire issue was thrown out.

Prison officials have wide latitude to censor inmates' mail. Indeed, *The Economist* has been censored in prisons before. Security trumps prisoners' rights: fair enough. But why didn't prison officials simply cut out the offending picture? Some 17 years ago, when an inmate was

one. As well as all of the above, it still includes Anthony Weiner, who resigned as a congressman after tweeting obscene pictures of himself, and whose polling numbers are now minute. Mr Weiner's oversized ego might have been a good fit for the city. New Yorkers like their mayors to be characters. Ed Koch and Rudy Giuliani both were. Even Michael Bloomberg, the outgoing mayor, has a certain charisma. Today's candidates are less exciting.

Mr Thompson, who narrowly lost to Mr Bloomberg in 2009, is an even-keel, sensible sort. He thinks, for instance, that stop 'n' frisk, a controversial police tactic, can be useful occasionally. Ms Quinn used to be closely aligned with Mr Bloomberg—too closely, say critics—and as Speaker has been friendly to business. She worked closely with Andrew Cuomo, the governor, to legalise gay marriage in the state. Her big competition is Mr de Blasio, who makes much of his progressive beliefs. He blames Mr Bloomberg for the city's growing income disparities, hoping to win votes not only among white liberals but also among blacks. He is married to a black woman, and his teenage son Dante, who sports a huge afro, is the star of his TV ads.



## Another reason to stay out of prison

denied his copies of *Muhammad Speaks* magazine, a court asked the same question. But the censors prevailed, arguing that the cost of implementing such a procedure would be prohibitive. America spends \$80,000,000,000 on incarceration each year; a pair of scissors costs \$2.

But will New York go for a Democrat at all? Democrats outnumber Republicans there, yet New Yorkers have voted for a Republican or an independent in the past five mayoral elections. Steve Malanga of the Manhattan Institute, a New York think-tank, points out that in both 1993, when Mr Giuliani won, and 2001, when Mr Bloomberg first won, people were afraid. New York two decades ago was a place where crime was rampant. In 2001 the city had just been attacked by terrorists. Today's voters, especially the young, do not feel they are in any particular danger.

This lack of fear may hurt the Republicans who are running. Joe Lhota, who headed the region's transport authority when Hurricane Sandy struck last year, has proved he is good in a crisis; but there is no crisis.

Financial trouble looms, however. Municipal employees have been working without contracts, some for four years or more, and are demanding retroactive pay rises. The city, with pension obligations of \$8 billion, could do without this added burden. The next mayor, opines John Calascione, a Brooklyn man sitting on his front step, will have to be able to say no. ■



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VIAGRA should not be used with other ED treatments. VIAGRA should not be used with REVATIO or other products containing sildenafil.

VIAGRA does not protect against sexually transmitted diseases, including HIV.

The most common side effects of VIAGRA are headache, facial flushing, and upset stomach. Less commonly, bluish vision, blurred vision, or sensitivity to light may briefly occur.

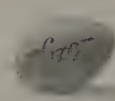
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### ABOUT ERECTILE DYSFUNCTION (ED)

Erectile dysfunction means a man cannot get or keep an erection. Health problems, injury, or side effects of drugs may cause ED. The cause may not be known.

### ABOUT VIAGRA

VIAGRA is used to treat ED in men. When you want to have sex, VIAGRA can help you get and keep an erection when you are sexually excited. You cannot get an erection just by taking the pill. Only your doctor can prescribe VIAGRA.

VIAGRA does not cure ED.

VIAGRA does not protect you or your partner from STDs (sexually transmitted diseases) or HIV. You will need to use a condom.

VIAGRA is not a hormone or an aphrodisiac.

### WHO IS VIAGRA FOR?

Who should take VIAGRA?

Men who have ED and whose heart is healthy enough for sex.

Who should NOT take VIAGRA?

- If you ever take medicines with nitrates:
  - Medicines that treat chest pain (angina), such as nitroglycerin or isosorbide mononitrate or dinitrate
- If you use some street drugs, such as "poppers" (amyl nitrate or nitrite)
- If you are allergic to anything in the VIAGRA tablet

### BEFORE YOU START VIAGRA

Tell your doctor if you have or ever had:

- Heart attack, abnormal heartbeats, or stroke
- Heart problems, such as heart failure, chest pain, angina, or aortic valve narrowing
- Low or high blood pressure
- Severe vision loss
- An eye condition called retinitis pigmentosa
- Kidney or liver problems
- Blood problems, such as sickle cell anemia or leukemia
- A deformed penis, Peyronie's disease, or an erection that lasted more than 4 hours
- Stomach ulcers or any kind of bleeding problems

Tell your doctor about all your medicines. Include over-the-counter medicines, vitamins, and herbal products. Tell your doctor if you take or use:

- Medicines called alpha-blockers to treat high blood pressure or prostate problems. Your blood pressure could suddenly get too low. You could get dizzy or faint. Your doctor may start you on a lower dose of VIAGRA.
- Medicines called protease inhibitors for HIV. Your doctor may prescribe a 25 mg dose. Your doctor may limit VIAGRA to 25 mg in a 48-hour period.
- Other methods to cause erections. These include pills, injections, implants, or pumps.
- A medicine called REVATIO. VIAGRA should not be used with REVATIO as REVATIO contains sildenafil, the same medicine found in VIAGRA.

### POSSIBLE SIDE EFFECTS OF VIAGRA

Side effects are mostly mild to moderate. They usually go away after a few hours. Some of these are more likely to happen with higher doses.

The most common side effects are:

- Headache
- Feeling flushed
- Upset stomach

Less common side effects are:

- Trouble telling blue and green apart or seeing a blue tinge on things
- Eyes being more sensitive to light
- Blurred vision

Rarely, a small number of men taking VIAGRA have reported these serious events:

- Having an erection that lasts more than 4 hours. If the erection is not treated right away, long-term loss of potency could occur.
- Sudden decrease or loss of sight in one or both eyes. We do not know if these events are caused by VIAGRA and medicines like it or caused by other factors. They may be caused by conditions like high blood pressure or diabetes. If you have sudden vision changes, stop using VIAGRA and all medicines like it. Call your doctor right away.
- Sudden decrease or loss of hearing. We do not know if these events are caused by VIAGRA and medicines like it or caused by other factors. If you have sudden hearing changes, stop using VIAGRA and all medicines like it. Call your doctor right away.
- Heart attack, stroke, irregular heartbeats, and death. We do not know whether these events are caused by VIAGRA or caused by other factors. Most of these happened in men who already had heart problems.

If you have any of these problems, stop VIAGRA. Call your doctor right away.

### HOW TO TAKE VIAGRA

Do:

- Take VIAGRA only the way your doctor tells you. VIAGRA comes in 25 mg, 50 mg, and 100 mg tablets. Your doctor will tell you how much to take.
- If you are over 65 or have serious liver or kidney problems, your doctor may start you at the lowest dose (25 mg).
- Take VIAGRA about 1 hour before you want to have sex. VIAGRA starts to work in about 30 minutes when you are sexually excited. VIAGRA lasts up to 4 hours.

Don't:

- Do not take VIAGRA more than once a day.
- Do not take more VIAGRA than your doctor tells you. If you think you need more VIAGRA, talk with your doctor.
- Do not start or stop any other medicines before checking with your doctor.

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## Policing Philadelphia

## Boots on the street

PHILADELPHIA

How foot patrols keep tough neighbourhoods safer

IT IS a humid afternoon, and two young police officers patrolling one of the roughest parts of Philadelphia have stumbled on something new. In a corner lot, a small brown horse is munching on thorn bushes. "I think it's legal to keep a horse in the city," says Mike Farrell, looking up and the down the block for clues. "You get used to seeing everything in this neighbourhood," adds Brian Nolan, his partner, "but this is pretty unusual." After learning from a passer-by that the horse's owner lives nearby, and that its corral belongs to his grandmother, the officers extract a promise to ensure that the animal gets fresh water, and move on.

Philadelphia is a violent city, with a murder rate more than four times New York's. To curb the mayhem, the police are resorting to an old-fashioned technique. Instead of insisting that officers cruise around in cars, the city is sending rookies out on foot. If they constantly patrol the same troubled neighbourhood, goes the theory, they will understand it better and keep it safer. The results are encouraging.

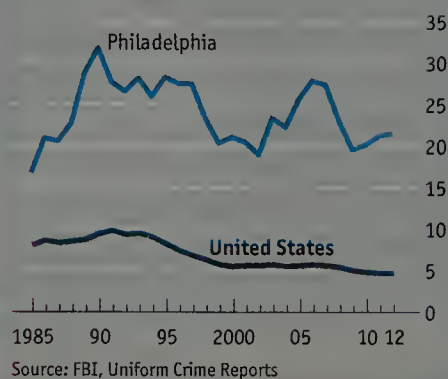
Mr Farrell and Mr Nolan patrol the 22nd district, one of the roughest. A four-square-mile warren of densely packed terrace houses and public-housing projects, it saw 35 murders last year, not to mention many robberies, assaults and crack deals. The pavement is littered with broken glass, crack baggies and ketchup packets. Hip-hop and soul blast out of open windows and parked cars. The streetscape is punctuated by barbers' shops, storefront churches, kerbside cookouts, card games under gazebos, makeshift basketball backboards nailed to telephone poles and burned-out, abandoned houses.

But the officers, square-jawed white men in a nearly all-black neighbourhood, don't balk at their surroundings. They kick balls with kids, banter with families sitting on front steps and rouse drunks from the steps of boarded-up shops: "Are you OK, ma'am? Are you diabetic? On drugs?"

By talking to locals, they foster trust. "Jazz the Barber", who owns a local salon, is appreciative. "They makes the area safer," he says. "There used to be lots of robberies and home invasions around here. But now the police are seen, as opposed to when they're just driving past. I think it's cool." Patrolling the district can be an eye-opener for new officers, says Sergeant Bisarat Worede, who has been in charge of the foot patrols since late 2010. It shows roo-

## Not enough brotherly love

Murders per 100,000 people



kies that there are good people even in bad parts of town.

And it seems to work. By mid-June there had been seven homicides in the 22nd district in 2013, compared with 20 at that point last year. Burglaries had dropped from 373 to 283, aggravated assaults from 352 to 304, and 54 people had been shot, against 77 in 2012.

Philadelphia's foot-patrol strategy was developed after a study in 2009 by criminologists from Temple University, which is in the 22nd district. A randomised trial overturned the conventional view that foot patrols make locals like the police more and fear crime less, but do not actually reduce crime. In targeted areas, violent crime decreased by 23%.

Crime has been falling in many cities, and for a variety of reasons. The population is ageing. Police are using data more shrewdly. Private security has proliferated: shops have cameras, houses have burglar alarms and cars have immobilisers. It is hard to disentangle the effect of any single crime-fighting technique. But foot patrols have some thoughtful backers.

Such patrols work best if officers return to the same street several times in each shift, says Jerry Ratcliffe, director of Temple's Centre for Security and Crime Science. A good officer will soon know everybody on his beat. It is important to "spend time just standing on a street corner, chatting to people, getting a feel for the tempo and rhythm of a place." Foot patrols work best in dense neighbourhoods, says Mr Ratcliffe, where many people cannot afford air conditioning and so socialise on the street. Drunken disagreements beget violence. "Half the people shot in Philadelphia are shot within two blocks of their address," he says.

Officers in cars perceive a neighbourhood differently, he continues. They are typically only exposed to people who are under stress: suspects or victims of crime. "Whereas when you're on foot, there's a lot more opportunity to interact with normal people. People who just happen to be living in a poor or violent area."

Not everybody in Philadelphia's 22nd district welcomes the beat cops. "They walk around with attitude," says Nasir Brown, sitting on the kerb with a friend as Officers Farrell and Nolan pass. "They're attacking the wrong issues. Don't nobody in the ghetto manufacture drugs."

But others are happy to see the officers. Asked how their presence has changed his neighbourhood, Keenan Jones says: "Well, me and you can talk right here right now without no gunshots going off." ■



Getting to know the neighbourhood



# Lexington | Barack Obama's Iraq syndrome

America's president is too wary of taking sides in the Middle East



**T**HE Arab street hates Barack Obama. Many angry Egyptians accuse him of secretly supporting the Islamists who ran the country until July. Many others (equally angry) accuse him of backing the generals who overthrew the Islamists. Both charges cannot be right. Indeed, neither is. Yet loathing of Mr Obama runs wide and deep in the Muslim world, though he came to office vowing to mend relations with it, after the hubris and blunders of his predecessor.

When you are the commander-in-chief of a superpower, people often assume you are more powerful than you really are. To many Islamists the Egyptian army's ousting of their leader, ex-President Muhammad Morsi, simply has to be America's handiwork. Islamist posters in Cairo depict Mr Obama as a wicked pharaoh, leading Egypt's military strongman, General Abdel Fattah al-Sisi, by a dog-leash. To such folk, evidence of American perfidy is all around: from comments by John Kerry, the secretary of state, that the army was merely "restoring democracy", to Mr Obama's reluctance to suspend military aid.

In contrast, to many Egyptians who back the generals, events have unmasked Mr Obama's warm words about Arab democracy as a plot to empower Islamists, with an eye to dividing and weakening their homeland. Pro-army posters depict Mr Obama as a terrorist sympathiser with a bin-Laden-style beard.

Back home in America, too, Mr Obama is denounced in stereo. How feckless this president is, thunders a cross-party chorus of congressmen and pundits, urging him to suspend military aid to Egypt, lest America be complicit in a moral disaster. But oh, how reckless this president is, counters a camp that favours *Realpolitik*. The realists, both Republican and Democrat, want Mr Obama to hold his nose and back Egypt's generals, to ensure stability on Israel's borders and help contain radical Islam.

Syria inspires similar cacophony in Washington. Foreign-policy grandees call Mr Obama rash for saying that Bashar Assad had to go without first figuring out who might replace him, and for vowing to act should the regime use chemical weapons: a "red line" tested afresh on August 21st by allegations of horrific gas attacks on civilians near Damascus (prompting cautious White House calls for a UN investigation). A rival, bipartisan camp calls Mr Obama weak and timorous for failing to arm Syria's rebels.

As noted earlier, these duelling critics cannot all be right. Lexington would go further. Anyone who accuses Mr Obama of picking winners in the Middle East, or urges him to do so, misunderstands the president. Mr Obama is not in the business of taking sides in foreign conflicts. He is profoundly cautious about wielding American power, and even about defending values that—when the going was easier—he hailed as universal.

In 2011, as the Arab spring reached Cairo, Mr Obama heaped praise on Egyptians for seeking "nothing less than genuine democracy". He quoted Martin Luther King and praised largely peaceful protests for "putting the lie" to the idea that justice is best gained through violence. He lauded the Egyptian army for refusing to fire on civilians. Two-and-a-half years later, events leave less room for presidential lyricism. On August 15th Mr Obama rebuked the same army for its brutishness, saying that Egyptians deserve better. Then he chided Egyptians for their conspiracy theories about him, such as his supposed support for both Mr Morsi and his foes. Blaming America will "do nothing" to build a peaceful, democratic, prosperous Egypt, he scolded.

Such chilly rationality will not placate Arabs whose blood is boiling. From Syria to Egypt and beyond, partisans yearn to crush old rivals or sectarian foes once and for all. Mr Obama's response is to dispatch envoys to preach the merits of negotiation and inclusion. On August 19th the defence secretary, Chuck Hagel, declared America's influence in Egypt "limited". General Martin Dempsey, chairman of the joint chiefs, has warned against picking "one among many sides" in a Syrian war whose underlying causes cannot be resolved by American military force.

## Not every crisis is a quagmire

Such coolness matches the mood of many Americans. Fewer than one in four claims to be following events in Egypt very closely. According to a new *Economist/YouGov* poll, only 12% think Mr Obama has a clear strategy for Egypt, but that will not cost his party many votes. Television images of Arabs slaughtering Arabs—even of children convulsing after alleged chemical attacks in Syria—have not stirred American viewers very much.

During the Balkan wars of the 1990s several mid-ranking officials resigned in protest at American inaction, notes Robert Satloff of the Washington Institute for Near East Policy, a think-tank. Mr Obama's hands-off approach to Syria, Egypt and elsewhere has not led to a similar walk-out. At the same time the president has bought himself credit in Congress and in Washington by embracing Israel more closely in his second term, and by letting Mr Kerry work on restarting Israeli-Palestinian peace talks. As a result, Mr Obama is shielded from grumbling about Syria.

Memories of overreach in Iraq and Afghanistan also help explain the national mood of coolness towards the Muslim world. But lessons from history can be over-learned. Frederic Hof, a former Syria point-man at the State Department, now at the Atlantic Council, sees an "Iraq syndrome" within government, and a prevailing view that America will botch any intervention it tries. Yet air strikes might slow or halt some Syrian massacres.

Contrary to the wild accusations against him, Mr Obama is not the hidden hand behind the Middle East's tumult. In truth, he hates to take sides, fearing that any fresh entanglements may prove as bloody and costly as George W. Bush's. But sometimes sides should be taken. Detachment can also be a sin. ■





Latin America's largest economies

## Different kettles of fish

SÃO PAULO

**Although neither is in good odour with the markets, Brazil and Mexico are on different growth trajectories**

ON THE face of it, the pundits appear to have got their projections for Latin America's two biggest economies upside down this year. Mexico, which started with the most promise, unexpectedly suffered a 0.7% slump in the second quarter compared with the first three months, according to data released on August 20th, due to a slump in construction, mining and exports. Brazil, which has been the subject of much hand-wringing since China's demand for commodities collapsed, is expected to show decent growth when second-quarter figures are published on August 30th.

Adding to the bafflement, manufacturing, which has long been considered weak in Brazil, has been doing better there than in Mexico, where it is usually the most efficient part of the economy thanks to close integration with the United States. Neil Shearing of London-based Capital Economics says industrial output rose by 1.1% in Brazil in the second quarter over the previous three months. In Mexico, adding in construction, it sank by 1.1%.

Yet you only need to look at the Brazilian currency, which has slumped from 1.53 reals to the dollar in mid-2011 to 2.42 reals on August 21st, to realise that the gloom about Brazil persists. It has been the second worst-performing emerging-market currency this year.

Notwithstanding a relatively healthy first half, analysts' growth projections for

Brazil this year and next are plummeting (see chart). The Mexican government has lowered its growth forecast for 2013 to 1.8% from 3.1%, but the economy is expected to accelerate in the second half if the American recovery gathers pace.

Amid fears in global financial markets about a withdrawal of central-bank stimulus that has pushed money into red-hot emerging markets in recent years, Brazil's most immediate concern is its current-account deficit. During the first half of 2013 it hit \$43.5 billion, or almost 4% of GDP. This is mostly financed by borrowing in local currency, which means Brazil is not at risk of the sort of foreign-debt crisis that plagued it in the past. But a falling currency will hurt companies with dollar-denominated debts. It also raises inflation, which is floating too close for comfort to the upper end of the central bank's 2.5-6.5% tolerance band. Inflation and indebtedness are eating into domestic consumption, which had remained strong even during the past two years of low growth. Retail sales in the first six months were just 3% above the same period last year, the weakest growth in a decade.

A rise in inflation will force the Central Bank to keep raising interest rates. After cutting them sharply from mid-2011, it overshot and had to start tightening in April even though growth was sluggish. Analysts expect another 0.5% increase on August 28th, bringing the policy rate to 9%,

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and more by the end of the year, depending on where the currency settles.

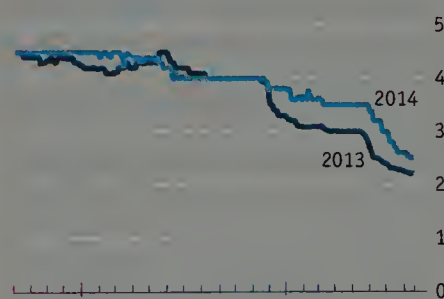
The jobs market is precarious, too. In recent years, employers have gritted their teeth, raised wages and kept workers on, which has helped stop households from feeling the full impact of Brazil's declining international competitiveness. But that is unsustainable, and with confidence in an imminent recovery fading, companies are likely to start letting people go.

As for investment, the promise that the government would auction concessions for infrastructure projects, including airports, ports, railways and roads to improve Brazil's ragged infrastructure sustained the belief for the past two years that growth was "just around the corner", says Constantin Jancsó of HSBC Brasil. That faith is fading. Hardly an auction has been held. On August 12th a separate plan to link Brazil's two largest cities, São Paulo and Rio de Janeiro, via high-speed rail was postponed for the third time when it became clear there would be just one bidder.

The good news in the longer term is that a falling real may help to shift Brazil's economy away from import-driven consump- ►►

### Heading south

Brazil's GDP growth expectations  
% increase on previous year



Source: Central Bank survey of market expectations



tion and towards investment. But in the meantime there is a risk that joblessness and inflation could revive the anger that led to demonstrations against political corruption and poor public services in June.

Mexico, too, faces the prospect of street protests as the government of Enrique Peña Nieto attempts for the first time in half a century to allow private investment in the oil industry. A weak economy will not help his popularity. He is likely to argue, though, that such bold reforms are the best way to attract investment and wean Mexico off its historical dependence on exports to the United States. In Brazil Dilma Rousseff, the president, faces an election next year with her popularity dented by the protests. That is only likely to make her more cautious about launching the radical reforms Brazil needs. ■

### Trade in Haiti

## Chickens and eggs

PORT-AU-PRINCE

**Haiti's government tries a risky experiment with industrial policy**

FOR the past two months Haiti has been in a one-sided trade war with its neighbour, the Dominican Republic—an unusual development in a country that, as well as being the poorest in the hemisphere, has the most liberal tariff regime in the Caribbean. Though a settlement may be imminent, the Haitian government of President Michel Martelly has sought to ban the import of poultry and eggs, claiming there was a risk of bird flu, a charge vigorously denied in Santo Domingo.

Since the start of August it has also cracked down on the use of polystyrene containers, 80% of which come from the Dominican Republic. Though ostensibly a measure to rid Haiti of rubbish, some suspect the country's big trade deficit with its neighbour is also a factor. Dominicans chuckle wryly at Mr Martelly's slogan that Haiti is "open for business".

The cross-border friction appears to reflect a new attitude towards trade within Mr Martelly's government. This may mark an ominous attempt at import-substitution but it is proving popular with Haiti's businessmen. They see the outlines of a policy to promote manufacturing in a country where a quarter of GDP comes from agriculture and 60% of households depend on farming for their livelihood.

Business diplomacy is one way of helping things along. Delegations now often arrive in Port-au-Prince to talk trade, not aid—though the countries they come from are not heavy hitters in global commerce. Last month the government signed a deal in

Vietnam to expand co-operation in energy, textiles, food and electronics. Britain has reopened an embassy after a 47-year gap, partly with an eye on business opportunities (as well as helping the country recover from the ravages of the 2010 earthquake).

More significantly, Wilson Laleau, the finance minister, has submitted a budget to parliament that proposes a radical shake-up of tariffs, raising them on a long list of zero-rated food imports, such as chicken and fish, but lowering them on chemicals and other manufacturing inputs. "This is the first time in our history that a government has changed tariffs on 85% of all traded items to attract investment, stimulate manufacturing and strengthen productive capacity," he says.

One of his intended beneficiaries is the domestic pharmaceuticals business. Another is the garment trade. Gregor Avril, head of Haiti's main industrial association, says his members applaud changes that they hope will make it cheaper to produce, say, pasta and books at home than buy them from abroad.

But Barbara Kotschwar of the Peterson Institute for International Economics in Washington, DC says the policy runs the risk of picking winners, which is rarely a good idea. Others say that raising tariffs on food could have dire consequences, potentially driving up prices and increasing malnourishment in a country where 1.5m have nothing like enough food and another 5.2m eat less than they should.

The budget must be approved by October, and Mr Martelly will struggle to push it through a parliament in which his party does not have a majority. He can argue that Haiti badly needs a government that fights for business; it lags most other countries in terms of ease of doing business, infrastructure and education. But being captive to industry brings its own problems. ■



Don't count them before they're taxed

### Ecuador's unpredictable president

## Zig-zagging

QUITO

**Rafael Correa is no trendy lefty**

THE state-run *Tren Crucero*, which since June has revived its spectacular journey from Quito in the Andes down "The Devil's Nose" to Guayaquil on the Pacific, charges a discounted \$990 for four days of neo-baroque rail luxury. That hardly sounds like the creation of a self-proclaimed socialist government.

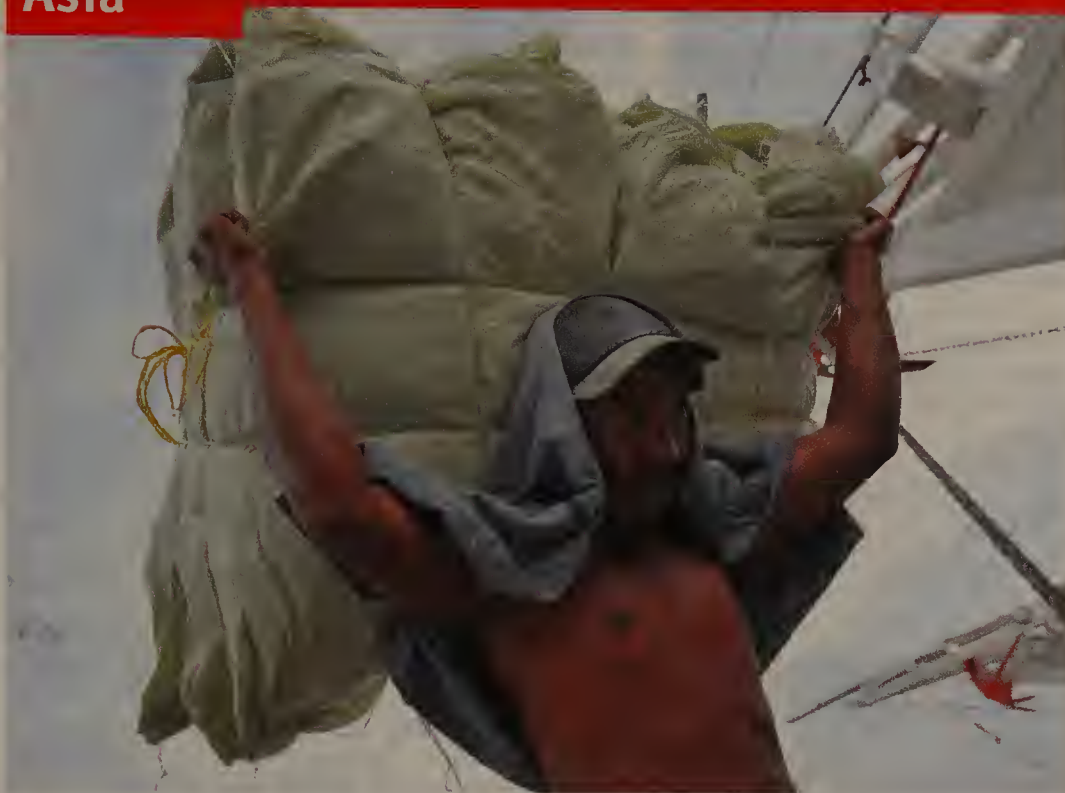
Yet loyalists of President Rafael Correa's "Citizens' Revolution" have had to face other jarring decisions since he took office for a third time on May 24th. In June, a phone call from Joe Biden, America's vice-president, sufficed for him to leave Edward Snowden, an ex-CIA whistleblower, at a Moscow airport instead of offering asylum. He has switched from opposing to advocating free-trade talks with the European Union. His government has made it harder for people to obtain asylum. That has irked human-rights groups, which have also blasted his Putinesque decision to vet non-governmental organisations.

On August 15th he made what could be his most unpopular U-turn, announcing the collapse of a six-year effort to keep oil companies from drilling in a pristine part of the Ecuadorean Amazon. To do that, he had asked rich countries to fork out \$3.6 billion as compensation for the forgone oil revenues, but he only raised \$13.3m. He said the world had "failed" Ecuador, but environmentalists and indigenous groups pointed the finger of blame at him. Ordinary Ecuadoreans, who had warmly supported the policy, were shocked too.

Economically, Mr Correa now practises some of the austerity he once derided. He is considering a sharp cut in fuel subsidies, and the social-security service has laid off more than 1,000 staff. Savings on their lunches, clothing and travel expenses are expected to be staggeringly large, underscoring the endemic waste.

Before he took office in 2007, such measures would have pushed many of Mr Correa's supporters onto the streets. Now the glue holding them together is more like nationalism than socialism, says Jorge León, a political scientist, adding that hardly any leftists remain in the cabinet. These changes would be better omens if they meant he was showing a more pragmatic, pro-business side. But businessmen, clobbered by higher taxes and legal uncertainties, still find life in Ecuador as full of twists and turns as a trip down "The Devil's Nose". And nothing like as uplifting.





## Indonesia's economy

# Slipping

JAKARTA

**A rise in economic nationalism compounds broader worries about South-East Asia's giant**

**H**OW quickly the mood can turn. Barely a year ago Indonesia was the toast of emerging-market investors. The country revelled in the world's demand for its vast reserves of coal, oil and other resources, and celebrated with a consumer boom: economic growth clipped along at over 6%. Politics was stable, macroeconomic policy sound. Foreign investors were scrambling to get into a market of 240m people and apparently boundless potential.

Today things look different. Investors are spooked by economic concerns. Growth is slowing, even as inflation heads up. In the second quarter GDP growth slowed to 5.8%, and it will certainly under-shoot the government's target of 6.3% for the year. Inflation, meanwhile, rose to 8.6% in July. Financial markets have taken a battering. After falling by 7.7% over three days, the benchmark stockmarket index is down by a fifth from its record high in May. The rupiah, a dismal regional performer of late, is at its lowest level against the dollar in four years. Foreigners have sold \$1.4 billion of government bonds since June.

After a good run, many Indonesians have been caught out by the sudden turn. Yet bewilderment has not turned to panic. Some think that Indonesia is merely being caught in a more general sell-off of Asian shares and currencies, prompted by fears that America's Federal Reserve will soon end its policy of ultra-cheap money. Econ-

omists also argue that much of the recent bad news about the economy is just temporary. For instance, inflation has jumped mainly because the recent removal of fuel subsidies led to a one-off rise in the cost of petrol. Inflation, they say, should soon fall back to 5%.

Nonetheless, Indonesia is being hit as hard as anywhere in Asia. For all that this week's sell-off reflected concerns about the Fed's ending of quantitative easing, it was also a reaction to a deteriorating current account. After 14 years of surplus, the current-account balance swung to a deficit of 2.7% of GDP in 2012. In the latest three months of data, the gap widened to 4.4% of GDP, it was announced on August 16th. And this is only one symptom of wider structural problems which the country failed to tackle when it was enjoying an economic tailwind.

The government of President Susilo Bambang Yudhoyono, who is serving his second term, had promised to grapple with the problems of Indonesia's awful infrastructure, foot-dragging bureaucrats and rampant corruption. Yet even by Mr Yudhoyono's admission, it has failed to do so. Scandals have multiplied. The latest is at the nation's oil-and-gas regulator (see next story). When the going was good, such negligence seemed not to matter. Now, with a fall in commodity prices and the prospect of an end to cheap money, In-

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donesia's failure to revamp its economy is laid bare. Investors have little confidence that the country can find new sources of growth. Even before this week's financial jitters, Indonesia had slid down various rankings of investor confidence.

Also spooking investors is a recent increase in economic nationalism intended to disadvantage foreigners. In the substantial mining industry, the government for some years has insisted that foreign companies refine or process in Indonesia the minerals, such as copper, which they extract, rather than simply shipping ores and concentrates abroad. This stipulation was made in the hope of creating more Indonesian jobs and investment.

Yet such laws have also come with heavy restrictions on the share of local businesses that foreigners may own. The trend is also apparent in plenty of other industries, including banking, where until not long ago Indonesia ran one of the most open regimes in the world. Now, regulations stipulate that new investors may not initially buy more than 40% of a local bank. With parliamentary and presidential elections next year, policies are likely to get even more restrictive as politicians appeal to voters' nationalism by bashing foreign capital. As one parliamentarian from the ruling party, Ramadhan Pohan, sums it up, "neoliberalism is a stigma and when you support this, you are finished."

In good times, Indonesia might have been able to afford the luxury of such posturing. But those times, all of a sudden, are over. Now that profit margins are coming under pressure—for example, from the government's requirement that miners build local smelters—many foreign investors will begin to look elsewhere, just at the moment when Indonesia might need them most. ■



## Indonesian oil and gas

## Gusher

JAKARTA

**A scandal at the regulator does a crucial sector no favours**

AT THE end of the Muslim holy month of Ramadan it is traditional for Indonesians to ask one another for forgiveness. Rudi Rubiandini, chairman until last week of the country's oil-and-gas regulator, must be hoping for some seasonal clemency. On August 13th the anti-corruption commission, the KPK, arrested Mr Rubiandini after catching him pocketing \$400,000 from a Singaporean energy firm, Kernel Oil. The money is allegedly the second instalment of a bribe worth \$700,000. Mr Rubiandini has admitted accepting gifts but denies corruption, as does Kernel Oil.

Another scandal is the last thing the country's beleaguered energy industry needs. Last November the Constitutional Court dissolved the previous regulator. Many interpreted this as evidence of creeping economic nationalism in Indonesia. The court sided with a group of petitioners who claimed that the 2001 oil-and-gas law which established the regulator was in violation of the constitution. This insists that natural resources remain under "the powers of the state". Within days the government established a new regulator, now called SKK Migas.

Whereas its predecessor was an independent watchdog, SKK Migas sits under the energy ministry. That may make it more prone to corruption, says Kevin O'Rourke, a political-risk consultant. After Mr Rubiandini's arrest, the KPK searched the offices of the ministry's top bureaucrat, where it seized another \$200,000 as part of the widening investigation. The energy minister, Jero Wacik, is a senior member of the Democratic Party of President Susilo Bambang Yudhoyono. Mr Wacik denies any involvement by his party, and Mr Rubiandini himself has said that the money from Kernel Oil was not meant for the minister. Still, the scandal has raised questions about party financing ahead of elections due next year.

Indonesia's oil industry has been in decline for decades, with crude-oil production almost halving since the mid-1990s. The country's proven reserves of 4 billion barrels are likely to be sucked dry by the mid-2020s. A dozen foreign oil-exploration firms have spent nearly \$2 billion between them drilling for new reserves in the past five years, but have found nothing much. Meanwhile, Indonesia is struggling to attract investors to tap undersea reserves in the east of the archipelago that are hard to get at.

Scandals such as the latest one will not help boost the industry. Mr Yudhoyono suspended Mr Rubiandini on August 14th, less than eight months after the regulator took up his post. Officials stress that Kernel Oil, a subsidiary of a parent company registered in the British Virgin Islands, is involved in neither oil exploration nor production in Indonesia. Rather, it is one of 40-odd firms licensed to bid for petroleum products not used by Pertamina, the state-owned oil firm. Still, these attempts at reassurance may not be enough for investors. It is the first time that the KPK has properly investigated the oil-and-gas business, worth almost \$70 billion annually. More revelations are likely as the probe continues. ■



## India's malnourished

## A mess of pottage

DELHI

**A huge cheap-food scheme to influence voters will not end malnutrition**

"HISTORIC" and "unparalleled" were the words Sonia Gandhi, boss of the ruling Congress party, used to describe India's new food law at a launch in Delhi on August 20th. She promised an end to hunger for the poor. More accurate terms for the law and its introduction would be "expedient" and "chaotic". The scheme aims to reach 800m of India's 1.2 billion people, giving each a monthly dole of 5 kilos of rice or wheat, at a nominal price. That makes it the world's biggest serving of subsidised food. Yet it has been launched amid confusion, cynicism and claims of fiscal irresponsibility.

The food scheme became law in July when the prime minister, Manmohan Singh, Mrs Gandhi's factotum, introduced it as an ordinance—a rarely used executive power to which Parliament eventually has to agree. Mrs Gandhi fears a thumping at a general election due by the end of May, so Congress is now rushing to push the

scheme through. Parliament still has to be persuaded. She sought to tie the bill to the memory of her husband, Rajiv Gandhi, who was assassinated two decades ago and whose ballyhooed birthday was chosen as the day of the launch.

Opponents tried everything to stop the bill being discussed, but debate was set for August 22nd. The opposition Bharatiya Janata Party dares not block the bill for fear of being cast as anti-poor. The party's de facto leader, Narendra Modi, who used to talk of the need for small government rather than populist handouts, attacked it for promising too little in the way of rations.

The new law is good in parts. It makes sense to enshrine a national obligation to give children a daily hot lunch and new mothers a six-month stipend. It is wise to promote better nutritional help and health care for under-sixes, especially girls, using the existing Integrated Child Development Services. Helping populous states with most of the poor is overdue. Hints that cash transfers might one day replace help-in-kind are also welcome.

But much is rotten about the food scheme. It is too costly. India already spends 900 billion rupees (\$14 billion) a year on a bloated system of grain procurement. Half is badly stored and rots, or is stolen. With many new recipients, the cost will rise by nearly two-fifths, to 1% of GDP. That is equivalent to what India spends on public health.

Some argue that it is not a given that the money will always be badly spent. Jean Drèze, a development economist, says that the system will improve because a wider pool of recipients can insist on better service. He cites the experience of recent programmes in Chhattisgarh state.

Yet given the chronic abuse of procurement and food schemes elsewhere, massive theft and waste will surely continue. The food scheme is also badly targeted. Surveys suggest that 2% of Indian households are hungry at some point in the year. Just over 20m people, many in tribal areas or rural bits of northern states, need more help. Yet two-thirds of India's total population will get the new food aid. That broad splurge of handouts is driven more by raw politics than by development priorities.

It would be better to deal with pitifully bad nutrition than plain hunger. Walk around any north Indian village where grain seems adequate, and stick-thin people offer evidence of how few nutrients are being absorbed. Roughly half of all children under five are malnourished. Save the Children, a British charity, said in June that over 60m children, aged five or younger, are stunted. The consequences can be grim: damage to young brains, a reduced capacity to learn, even death.

Yet helping children requires more than a supply of base calories. A lack of protein or vitamins in diet, dirty water, neglect of ►►



girls, lack of education on hygiene and ill-nourished mothers who get pregnant too often: all contribute to the problem. Arvind Virmani, a prominent economist, argues that cleaning up water supplies, especially by building sewage systems, would do far more good against malnutrition than doling out more grain. Just a simple hand-washing campaign could be of huge help.

Even some backers of the new food act admit, in private, that more spending on public health is the greater need. UNICEF, the UN children's agency, says that diarrhoea kills over 400 young children in India every day. Two-thirds of Indians lack proper sanitation. Some estimates suggest that 70% of drinking water is seriously polluted with sewage. No wonder, says Mr Virmani, infected people fail to absorb nutrients, whatever their diet. Only when votes are in supplying lavatories, and politicians clamour to lend their names to sewage systems, will that change. ■

### A Korean thaw?

## Bordering on comradely

SEOUL

**A coup for Park Geun-hye—and for North Korean coffers**

WHEN an April tantrum led North Korea to withdraw its 53,000 workers from the Kaesong industrial complex and expel the managers of the 100-odd South Korean firms, it was curtains for the only surviving product of years of attempts by South Korea to work with the North. The regime in Pyongyang claimed its move was out of pique at military exercises—"attack rehearsals", it called them—that South Korea was conducting with America. In fact, it was all of a piece with North Korean provocations that had run for months and included a nuclear test in February.

Since then, it has looked as if Kaesong would never reopen—and good riddance, many in South Korea clearly thought. First opened in 2004, the enclave of capitalist enterprise houses mainly small-sized textile and electronics factories. The South kept Kaesong on life support, supplying electricity and water and two meals a day to workers. Firms paid around \$140 per worker each month, but they paid it to the state, which pocketed a big chunk. Despite the cheap labour, few owners made money there.

Yet on August 14th, after seven rounds of talks, both sides agreed to reopen the complex. Four days later came another breakthrough: after three years of suspension, North Korea also agreed to restart temporary reunions for families separated

for decades by the Koreans' division and the tragedy of the Korean war. On August 20th the South said it would also talk about the possibility of once more allowing South Korean visits to the North Korean resort of Mount Kumgang (out of bounds to North Koreans). Visits were ended in 2008 when a North Korean soldier shot dead a tourist strolling on the beach.

Eternal optimists see these moves as a precursor to reviving the "six-party" talks meant to get North Korea to dismantle its nuclear-weapons programme. Kaesong, says Yoo Ho-yeol, a professor in North Korean studies at Korea University in Seoul, is the one remaining "window for talk". Hwang Seung-hee of the unification ministry says that, once both sides finalise the Kaesong deal, setting up family reunions will be "quick and easy".

The North Koreans' about-turn probably reflects a realisation of how badly it needs the hard cash. But Peter Beck of the Asia Foundation also senses North Korea's desire to loosen its economic dependence on China.

Why the conservative government of South Korea's new president, Park Geun-hye, should be so keen on Kaesong is more puzzling. True, the agreement supposedly ensures that North Korea no longer uses Kaesong as a political bargaining chip—though whether such a guarantee is worth the paper it is written on is another matter. Meanwhile, Bruce Klingner, a former CIA analyst, thinks the joint undertaking never to shut the zone in future risks hobbling the government in Seoul.

For now, Mr Yoo argues, it is all an endorsement of Ms Park's "trustpolitik", a fuzzy notion for building confidence across the border. Part of it involves breaking the North's "bad old habits" of negotiation: "confrontation, conversation, compensation". Fine, but what if North Korea pockets the compensation and then starts the confrontation all over again? ■



The pity of cold war

### Japan's leaky nuclear plant

## No end in sight

TOKYO

**The Fukushima nightmare lingers**

THE agonising efforts to clean up the crippled Fukushima Dai-ichi nuclear power plant hit new obstacles this week. On August 21st the Nuclear Regulation Authority (NRA) said that leaks of radioactive water were a level three, or "serious", incident on a scale that goes up to seven. Some help from American experts aside, Japan has been dealing with the disaster itself. Now, even Tokyo Electric Power (TEPCO), the plant's owner, would welcome foreign help.

TEPCO is under intense fire at home. It "has no sense of crisis at all", grumbled Shunichi Tanaka, chairman of the NRA, as the leaks worsened. Another NRA commissioner questioned whether TEPCO's data could even be trusted. After months of denial, the firm has only just admitted that contaminated water is leaking into the Pacific. China and South Korea have both expressed concern.

The plant's melted reactor cores are tainting both the hundreds of tonnes of water pumped into them each day and the groundwater, producing vast quantities of radioactive liquid. After underground pools leaked, TEPCO has hastily built around 1,000 surface storage tanks. Several are leaking from joints sealed with plastic. The most recent leak, of 300 tonnes, prompted the NRA alert. Experts say many more tanks are at risk.

A shortage of cash may have heightened the crisis. TEPCO faces massive bills for replacement fuels and compensating evacuees. It failed to install even the most basic system to monitor water leaks. Its workers stand on tanks and memorise water levels. The NRA this week ordered TEPCO to install water gauges at once. "What's needed is tanks with stainless-steel seals, but that would take time and money," says Neil Hyatt, professor of radioactive-waste management at the University of Sheffield.

Another explanation for the neglect at Fukushima Dai-ichi is that Japan, under the pro-nuclear Liberal Democratic Party, is rushing to turn its nuclear reactors back on. All but two are now closed. Importing energy hits Japan's trade balance as well as TEPCO. Instead of scrutinising the operator's jerry-rigged water tanks, the NRA has been busy drafting new safety regulations. Public opposition already meant that restarting reactors would cause a big fight. With Fukushima Dai-ichi ever more visibly out of control, Japan's energy conundrum just got worse.



# Banyan | Trade, partnership and politics

With negotiations secret, optimism about a path-breaking trade deal is hard to share



SOME 100 Japanese officials descended on the tiny sultanate of Brunei in Borneo this week to pursue it. Malaysian politicians are working themselves up about the threat it poses. And, in Washington, at the office of the United States trade representative, “the lights are on all night; they’re sending out for pizzas,” says Mike Moore, New Zealand’s ambassador. For Mr Moore, a former prime minister and head of the World Trade Organisation (WTO), this is good news. The American administration is serious about its goal of realising the Trans-Pacific Partnership (TPP) this year, a free-trade agreement bringing together a dozen countries, two-fifths of the world economy and one-third of all trade.

Since it also involves Australia, Canada, Chile, Mexico, Peru, Singapore and Vietnam, this is ambitious. Indeed to most outside observers, meeting the latest deadline (2012 was one as well) seems as likely as hell freezing over or, come to that, as a successful end to the WTO’s interminable Doha round of trade talks.

It is partly the gloom surrounding Doha that lends the TPP such importance. Combined with the Transatlantic Trade and Investment Partnership or TTIP, an agreement America is pursuing with the European Union, it could give the world economy a boost and help mitigate the WTO’s failure. Moreover, the TPP and TTIP are meant to do more than traditional trade agreements. They are to incorporate “21st-century” elements in labour standards, environmental safeguards, intellectual property, government procurement and the treatment of state-owned enterprises.

Mr Moore draws optimism from the electoral cycle. Australia apart, few TPP countries face imminent elections. But if the TPP relies on governments avoiding their voters, that is surely a weakness. And even one American negotiator sees the TPP as a ten-year project, not a campaign which will have him home by Christmas. Of 29 proposed chapters, 15 have yet to be negotiated.

Japan’s joining the 18th round of talks last month was not only the biggest recent boost to the TPP, but also the biggest obstacle to a speedy conclusion. The world’s third-largest economy gives the group real heft. The TPP is important to Japan, too, as part of the third “arrow” of structural reform in the quiver of the prime minister, Shinzo Abe. But to date Japan has insisted that liberalisation exclude rice, beef, pork, sugar and dairy products. Agriculture is among the most protected parts of the Japanese economy. So

even if this is just an opening gambit, it suggests that a huge amount of work remains. Such old-fashioned issues also plague trade policy in America itself. America will have to cut tariffs and quotas for goods such as sugar (a big deal for Australia), dairy products (Canada) and catfish, footwear and textiles (Vietnam).

Meanwhile, America’s ambitions to agree on a “21st-century” trading regime, combined with the secrecy that cloaks the TPP talks, fuel the anxieties of anti-globalisation protesters worldwide. They see a plot to impose American standards and products on an unwitting and unwilling world.

Malaysia is an extreme case. As the world’s 17th-largest trading nation, and a Muslim-majority democracy, it is an important potential signatory. And for the government of Najib Razak, the prime minister, TPP ticks many of the right boxes for being modern, pro-trade and pro-America. With the opposition still disputing his victory in a general election in May, Mr Najib wants a planned visit to Malaysia in October by Barack Obama to go well. Yet the TPP is under fire from all sides. To Mr Najib’s left, Anwar Ibrahim, the opposition leader, sees it as an American effort “to impose its brand of economic model”. On his right, a former prime minister, Mahathir Mohamad, still influential in the ruling party, UMNO, also opposes it. Rules for public procurement under TPP might threaten the affirmative-action policies that favour the country’s ethnic-Malay majority. They underpin the grubby system of patronage that sustains UMNO rule.

Each of the 12 countries wants its own exemptions, known as “carve-outs” in the jargon. Vietnam resists rules that have the effect of forcing textile manufacturers to buy yarn from other TPP members rather than non-members (ie, China). Australia objects to “investor-state dispute-settlement” provisions, which it sees as a threat to the government’s ability to stand up to multinationals. In many countries politicians have expressed concern about new intellectual-property protections. And everywhere, the lack of transparency in the talks feeds conspiracy theories.

Nor is the TPP the only trade game in Asia. Also (and not coincidentally) in Brunei this week there were talks on the Regional Comprehensive Economic Partnership. The RCEP groups the ten members of the Association of South-East Asian Nations with Australia, China, India, Japan, New Zealand and South Korea. Seen as of lower “quality” than the TPP, the RCEP might for that reason have better prospects. But it is at a very early stage.

## The ghost at the feast

The risk facing the TPP is that the political pressure to get a deal leads to its dilution: that, in the words of Jayant Menon at the Asian Development Bank, after all the carve-outs, “not much but a skeleton is left.” In Japan this week, the United States trade representative, Michael Froman, spoke of the need to work “pragmatically” to find solutions, while making sure that TPP rules and norms are “more than lofty ideals or appealing catchwords”.

Mr Moore insists that “people are not in the mood to have a political leaflet” as opposed to a serious trade agreement. But, with provisions that seem aimed at ensuring China’s exclusion, many still see the TPP as the trade-policy arm of America’s strategic “pivot” to Asia. China has said it is “studying” the TPP. But for now, its involvement in the RCEP makes the two pacts look like rivals. America is trying to design a trade regime which China will eventually have to join—rather than getting to set its own rules as its clout increases. It is an ambition worth a few takeaway dinners; but not one susceptible to a quick fix. ■





Bo Xilai on trial

## Settling scores

BEIDAIHE AND JINAN

The trial of Bo Xilai reveals much about the state of Chinese politics

**I**N A heavily guarded courthouse in the eastern city of Jinan, the trial began on August 22nd of a politician who was once one of China's most powerful figures. Bo Xilai, who is 64, has been accused of receiving bribes, embezzlement and abuse of power. His downfall in March 2012 caused the greatest political shock of its kind in decades.

That the trial is under way at last is a sign that Xi Jinping, who took over as China's leader eight months after Mr Bo disappeared from public view, is confident that he can handle its ramifications. Mr Bo, like Mr Xi, is the son of one of Mao Zedong's fellow revolutionaries. He remains popular in the parts of China where he has served, including as Communist Party chief in the 29m-strong region of Chongqing in the south-west. He is an icon of die-hard Maoists and members of the "new left" who decry China's move towards moneymaking. Handling Mr Bo's case without upsetting powerful families and arousing public ire (whether of Mr Bo's fans or of the many Chinese who are aggrieved at widespread official corruption) has been Mr Xi's challenge. As the trial began, dozens of supporters gathered nearby. Police dragged several away.

Mr Xi and his colleagues wished to choreograph the proceedings—which at the time of going to press were expected to last just a day or two—with great precision. But Mr Bo, with a characteristic feistiness, queered the pitch from the outset. He denied a charge of bribery involving payments of more than 1.1m yuan (\$180,000)

from a businessman in the north-eastern city of Dalian. His response to the other charges, including millions of dollars in other kickbacks, are not yet known. Foreign journalists were barred from the trial.

The allegations, even if disagreeable to Mr Bo, would have been tailored to suit all factions—including, to some extent, his own, for Mr Bo had powerful backers, including within the security forces. Speculation has also centred on whether the state tried to secure Mr Bo's co-operation by promising not to go after his 25-year-old son, Bo Guagua, who was expensively educated in Britain and is now studying in America. The younger Mr Bo may hope one day to to avenge his father's downfall.

Yet Mr Xi will not have compromised on keeping an unusually independent-minded, populist leader, with good looks to boot, from competing with him for control of China. Mr Bo is very unlikely to be executed, but he will surely be jailed for a good deal longer than the ten years that Mr Xi is due to serve as party leader, commander-in-chief and president. Mr Bo's wife, Gu Kailai, was spared execution a year ago when she was convicted of murdering a British man, Neil Heywood, over an alleged business dispute.

For all the evidence that his family has money, Mr Bo would probably not have been accused of corruption were it not for Heywood's death and the flight of Mr Bo's former police chief, Wang Lijun, to the American consulate in Chengdu. Mr Wang's revelations enabled Mr Xi's predecessor, Hu Jintao, to strike out at Mr Bo,

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who had been upstaging both him and Mr Xi with a mini-revival of Maoism.

Mr Xi, however, does not want the party's dirty laundry aired. Mr Bo's charges appear anodyne compared with some of what he is said to have done, including using widespread torture in a sweeping crackdown on organised crime. The bribery charges involve piffling sums compared with other recent cases involving senior officials. He is accused of trying to block a proper investigation of Heywood's death and of sacking Mr Wang illegally. But no mention is made of reports that he ordered the tapping of party leaders' calls.

If Mr Bo's case has highlighted the dirtiness of party infighting and the dangers of untrammelled power, the official media have done their best to hide it. Rather, the trial is being promoted as evidence of how "rule of law" is gaining strength and of how Mr Xi's vaunted campaign against corruption is aimed at the powerful as much as the small fry. Few are convinced. In recent months police have rounded up dozens of activists, including those calling for the disclosure of officials' wealth.

Mr Xi is perhaps relieved that Mr Bo's supporters have not mobilised in greater numbers to oppose the trial. He has, indeed, won grudging support from at least some leftists. With curious echoes of Mr Bo's campaign in Chongqing, Mr Xi has also adopted Maoist rhetoric, with much talk of how officials must get close to the masses and oppose Western pollutions such as media independence and civic rights. Mr Xi, like Mr Bo before him, has shown no inclination to revert to Maoist egalitarianism and push back the market. But China's leftists, lacking any open champion, will clutch at any straws.

Liberals, by contrast, are despondent at Mr Xi's rhetoric. Yet some still hope that, on economic matters, Mr Xi may prove a reformer. Earlier this month he and his party colleagues convened their annual retreat at the seaside resort of Beidaihe, east ►►



of Beijing. Their discussions are thought to have focused on wrapping up Mr Bo's case and moving on to the next big item on the party's agenda, a plenum of its central committee that is expected to take place in October. There Mr Xi will indicate the course of reform in the coming years.

Reformists hope the plenum will begin to steer the economy away from what might be called the Beidaihe model: at the resort, the beach-front is controlled by state-owned enterprises offering subsidised accommodation to state employees, while private guesthouses are relegated to the backstreets; the one foreign-brand hotel, a Sheraton that opened this year, is set far back from the sea.

It is not at all clear, though, that Mr Xi has the will or the muscle to confront the interests of China's state-owned behemoths—essential if he is to fulfil the party's stated ambition of shifting away from investment-heavy growth. Despite suggestions in some quarters that the plenum will be a turning point in China's economic reforms, little indicates that bold decisions have yet been made. The economy badly needs less government interference, more room for private enterprise, and a stronger rule of law. Each will antagonise powerful parts of the party establishment. Silencing Mr Bo may prove the easy part. ■

## Organs for transplants

# Chopped livers

BEIJING

**China seeks organ donors to replace a by-product of capital punishment**

ONE of the more settled traditions in the People's Republic has been "harvesting" the organs of condemned prisoners for use in transplant operations. But in the past decade the number whom China executes has fallen by three-quarters, to 3,000 a year. For a medical system that could count on a flow of organs, this poses a problem. Executed prisoners used to supply nine-tenths of organs transplanted in China. The proportion is now about half.

Health officials badly need to find new sources of organs. In 2010 China began introducing donation schemes at hospitals. Persuading people to donate is a wholly new game in China, and it has been slow going. In the first year, hospitals in 11 provinces and municipalities managed 97 organ transplants from volunteers. Since then about 1,000 people have donated 3,000 organs. Hospitals in 25 provinces and municipalities now have voluntary schemes in place.

But demand is enormous. Some 1.5m people in any given year are in need of an

## Underground Christianity

# Lamb of God

GUANGZHOU

**Even in death, a popular pastor makes the authorities nervous**

"YOU see: the more persecution, the more the church grows," said Pastor Samuel Lamb in 1993. Before he was jailed for 20 years in 1958, fewer than 400 worshippers attended his underground church, Damazhan. When he returned to his pulpit, the congregation grew to 900. It swelled still more, to 1,200, after 1990, when the authorities tried to close down his church. After that, his following and influence kept waxing.

Mr Lamb died this month, at the age of 88. On August 16th some 30,000 people attended a memorial service in Guangzhou, his home city. That does not count the many police. As so often in his lifetime, they were nearby, with a close eye and a heavy hand. They warned dozens not to come; several were detained during the service. Wang Yanfang, a Guangzhou Christian, said she was handcuffed and restrained for nearly eight hours. Her husband, Tang Jingling, a human-rights lawyer, was also nabbed.

Yet the authorities did not stop the event, in keeping with their approach in recent years to ministers like Mr Lamb and to the unregistered "house churches" they lead across China. Officially, China has 23m Christians. The real number is somewhere between 60m and 130m.

Chen Guancheng, a leader of Mr Lamb's church, says the police consulted him closely on plans for the service, which was attended by representatives of state-sanctioned churches too. Mr Lamb, or Lin Xiangao, was one of the last from an earlier era, when underground churches were harshly persecuted. His 20 years of jail and forced labour in coal mines followed an earlier two-year sentence. His grandson, Zion Hu, recalls

the church's early days, when "our house would be jam-packed, and people would sit on the stairs or take off their shoes and sit on our beds."

Later, the authorities loosened their grip and even allowed him to receive foreign visitors, among them Billy Graham and representatives of two American presidents, Ronald Reagan and his successor, George Bush. But Maggie Lam, a church member, says the police constantly pressured Mr Lamb to comply with official doctrine and register with the government. He always refused. The church's new leaders insist they will act in the same spirit. According to Bob Fu, president of an American Christian group, ChinaAid, the pastor would pack a backpack with a "bible, clothes and simple necessities". Chinese believers, he said, must be ready for possible arrest.



Lamb said: Do not do as the Romans do

organ, according to official figures. That includes 1m Chinese on kidney dialysis. Each year 500,000 die whose lives might have been saved, at least for a while, had they had a heart or liver transplant. About 300,000 Chinese are actually considered to be in the queue for organs, while a mere 10,000 approved transplants take place each year. An unknown number of patients turn to a black market.

The pace of voluntary donations should quicken. The hope is that by November all 165 hospitals licensed to conduct transplants will be able to boast voluntary-donation schemes. New hospitals wanting a licence for transplants will have to pledge not to use organs from executed prisoners—but those already licensed will

be able to continue doing so, provided they adhere to "ethical standards".

The ethics, however, are murky at best. Condemned prisoners (or their families) in theory volunteer to donate organs. But if no family member claims the body, it may be used without consent. Meanwhile, the financial incentive for prisons to sell organs remain high.

If more hospitals eventually opt out of using organs from executed prisoners, as officials hope, black-market traders may well step in. Patients wanting to jump the queue, as well as eager "organ tourists" from abroad, might pay for organs from executed prisoners, no questions asked. As long as demand exceeds supply, death-row inmates are worth more dead than alive. ■





## Syria's war

## If this isn't a red line, what is?

The latest alleged use of chemical weapons by the Syrian regime, if proven, could change the course of the civil war—against Bashar Assad

THE horrors of Syria's civil war have become so routine and relentless that recent massacres have barely been aired in the world press. But if it can be verified that on August 21st hundreds of people, most of them civilians, were killed by chemical weapons fired by President Bashar Assad's forces, a new level of atrocity will have been reached that may persuade Western governments to change their policy of military non-intervention. One opposition tally exceeded 1,200.

Barack Obama declared a year ago that it would "change" his "calculus" if Mr Assad were to plumb such depths of brutality. Since then, the American president has set his face against direct involvement (see Lexington, page 34). Now, however, he and the two Western governments that have come closest to tackling Mr Assad head on, France's and Britain's, may be badgered into thinking again. The two Arab countries most keenly arming the rebels, Saudi Arabia and Qatar, may also try again to pull the Western trio in.

In the early hours of the morning of August 21st, residents reported shelling and rocket attacks on Eastern Ghouta, a swathe of disaffected suburbs to the east of the capital, Damascus. Shortly afterwards, gruesome videos were posted showing victims struggling to breathe and displaying other symptoms of chemical poisoning—possibly by sarin, a nerve agent.

Could the rebels have faked such vid-

eos, as the regime's spokesmen promptly accused them of doing? Independent experts' early assessments, albeit tentative, tended to judge the reports credible. The poison shells are said to have been fired at areas where rebels have maintained a stubborn resistance to the regime, whose forces conducted air raids and bombarded them on the same day. Syria is thought to have hundreds of tonnes of mustard gas, sarin and the far more lethal vx, as well as other poisons not banned under the Chemical Weapons Convention signed by nearly all the world's countries.

The attack, if verified, is oddly timed, since a UN team of weapons inspectors arrived in Damascus only three days earlier to look into previous allegations of chemical weapons being used. The regime is most unlikely to let the UN people visit the sites of the latest suspected attack. If it were proved to be chemical, it would be the deadliest since Iraq's Saddam Hussein dropped poison bombs on Kurds in Halabja in 1988, killing 5,000 of them.

The UN inspectors are due to visit three places, including Khan Assal, a town west of Aleppo, where 30-odd people died in mysterious circumstances in March. The inspectors have been asked not to find out who carried out the attacks but merely to verify whether chemical weapons were used. The governments of Britain, France and Israel have told Ban Ki-moon, the UN's secretary-general, that their intelligence

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services are pretty sure Mr Assad has used chemical weapons on a small scale to test the West's willingness to respond militarily, with (for him) pleasingly negative results. He has also tested the West's resolve by repeatedly firing SCUD missiles into civilian-populated areas, a war crime, which likewise has failed to provoke a more muscular response from the West. The latest escalation, if true, suggests that Mr Assad believes even more strongly he can thumb his nose at the West with impunity.

After the rebels lost the town of Qusayr two months ago, Mr Assad's forces seemed to be on a military roll. More recently, however, the rebels have fought back, taking an airbase near Aleppo, consolidating in large parts of the north and east, and even attacking (albeit failing to capture) an area just north of Latakia, near Mr Assad's own clan heartland.

But as Islamist extremists become more dominant in rebel ranks, Mr Assad has increasingly been seen as the lesser of evils, both by religious minorities in Syria such as Christians and by hostile Western and Arab governments. Mr Obama's reluctance to intervene in Syria, like his unwillingness to call the overthrow of the Muslim Brotherhood's Muhammad Morsi in Egypt a coup, may have further emboldened Mr Assad. Russia, his stalwart ally, was quick to back his regime's denial that it had used chemical weapons, hinting that Britain's push to refer the matter to the UN Security Council would be blocked.

"The beauty of chemical weapons", in Mr Assad's view, says Emile Hokayem of the London-based International Institute for Strategic Studies, "is that there is enough ambiguity to allow discussion of a response to drag on for weeks or months." By that time, Mr Assad hopes, he may have the rebels back on the ropes. Or he may have made a drastic miscalculation. ■



Egypt's turmoil...

# The army tightens its grip

CAIRO

Shorn of their leaders, the Muslim Brothers are gasping for breath

IN THIS bitterly divided country, a disturbing number of conversations now start with the exclamation, "Sons of bitches!" Then comes the delicate task of discerning to whom this insult refers. Is the speaker angry with the government installed by a coup last month, or is the bile directed at the overthrown Muslim Brotherhood and its fellow travellers?

Given the pace of gory events, it can be hard to guess. On the morning of August 19th, news that police had fired tear gas into a packed prison lorry, asphyxiating 36 Islamist suspects, prompted widespread outrage. Yet within hours sympathies tilted back, as the news broke that Islamist gunmen in the Sinai peninsula had seized 25 unarmed police returning by bus from leave, and had shot them by the road.

Most often it is the Brothers that take the blame, though as the death toll from seven weeks of unrest approaches 2,000, the overwhelming bulk of victims has been on their side. In addition to the sour experience of one year under the inept rule of the Brotherhood's man, Muhammad Morsi, before his overthrow on July 3rd, a ceaseless campaign of vilification in Egypt's press has had its intended effect. "They deserve it" is the kind of callous remark reserved for what many now condemn in blanket terms as "terrorists".

Particularly in big cities, Egyptians by and large continue to rally behind their army, whose soft-spoken chief, General

Abdel Fattah al-Sisi, has proved a persuasive television performer. There is little public liking for the police, who have done most of the killing, but the Brothers' claim that their massive protests against the coup have been entirely peaceful is undermined by well-aided imagery and testimony showing that masked gunmen have lurked among the crowds. More than 100 soldiers and policemen have died in the violence.

It helps that relative calm has now settled in, following a crescendo of bloodletting after the security forces stormed two pro-Brotherhood sit-ins in Cairo on August 14th. Much of the country remains under a dusk-to-dawn curfew, but banks and government offices have reopened. The capital's stockmarket is making modest gains.

The state's hammer-blows against the Brotherhood have begun to blunt its response. Empowered now by emergency laws, the police have swept up more than 1,500 of the group's sympathisers, in addition to senior leaders, including the supreme guide, Muhammad Badia. Daily protests continue, but with dwindling turn-outs, often provoking hostility from pro-government citizens.

Brotherhood sources recount intense internal debates about what course now to take. Some counsel a retreat underground, some advocate defiance and even violence. So far, pacifist voices have largely prevailed, at least inside the Brotherhood itself. But its allies include a broad range of Islamist groups. Some, such as jihadist gangs in Sinai that have mounted daily attacks against security forces, are far fiercer.

Burning resentment lingers more widely among dedicated Islamists, who make up perhaps a quarter of Egyptians. This is not due only to thwarted hopes and fury at what they see as a counter-revolution against Egypt's nascent democracy, but to personal tragedy. The dead so far include Mr Badia's own son, the daughter of another senior official and a grandson of the Brotherhood's founder, Hassan al-Banna. But many victims hail from other Islamist groups, or had simply come out to protest against the army's seizure of power.

So far the government has done nothing to assuage the pain, or to suggest that the Brothers could be welcomed back into politics soon. Moving ahead with a "road map" declared by General Sisi, it has announced constitutional changes that include a dilution of "Islamic" wording and a future ban on parties "based on religion" which is intended to exclude the Brotherhood. A more liberal branch of the interim cabinet has lobbied for the government to endorse a charter with pledges of inclusiveness and a commitment to democracy and the rule of law, so as to clear the air and coax Islamists to accept their defeat. Yet this looks likely to be ignored.

For the time being, the Egyptian state's harder men feel immune from criticism.

They have responded fiercely to pressure from Western countries and from the European Union, which has announced a ban on the sale of security equipment. Officials accuse critics of supporting terrorism and have fanned a vitriolic campaign against foreign journalists for purportedly pro-Brotherhood bias.

Much of this is bluster, inflated by a long state tradition of repeating slogans until they become accepted facts. But the government also has powerful backers. With its former chief ally, America, in retreat from the region, rich Arab countries have stepped in. Saudi Arabia, Kuwait and the United Arab Emirates, whose ruling families detest the Brotherhood for its secrecy and seemingly tentacular reach, have already pledged \$12 billion in aid, a sum that dwarfs potential Western funds.

Even so, the stridency of the government's propaganda, the harshness of its methods and the reappearance of faces from the fallen regime of Hosni Mubarak all leave a bad taste for many Egyptians, including secularists who cheered the Brotherhood's departure.

As if to exemplify what many regard as a counter-revolution, Egyptian courts announced on August 21st that Mr Mubarak, who had been held in prison on varied charges, could no longer legally be detained. This may have been a procedural outcome, not a political decision. Even so, for Mr Mubarak to walk free would be a grim reminder that so much of the promise of Egypt's revolution has fizzled. ■

...and its Copts

## The butt of angry Islamists

MINYA AND NAZLA

The Muslim Brothers and their friends take revenge on Egypt's Christians

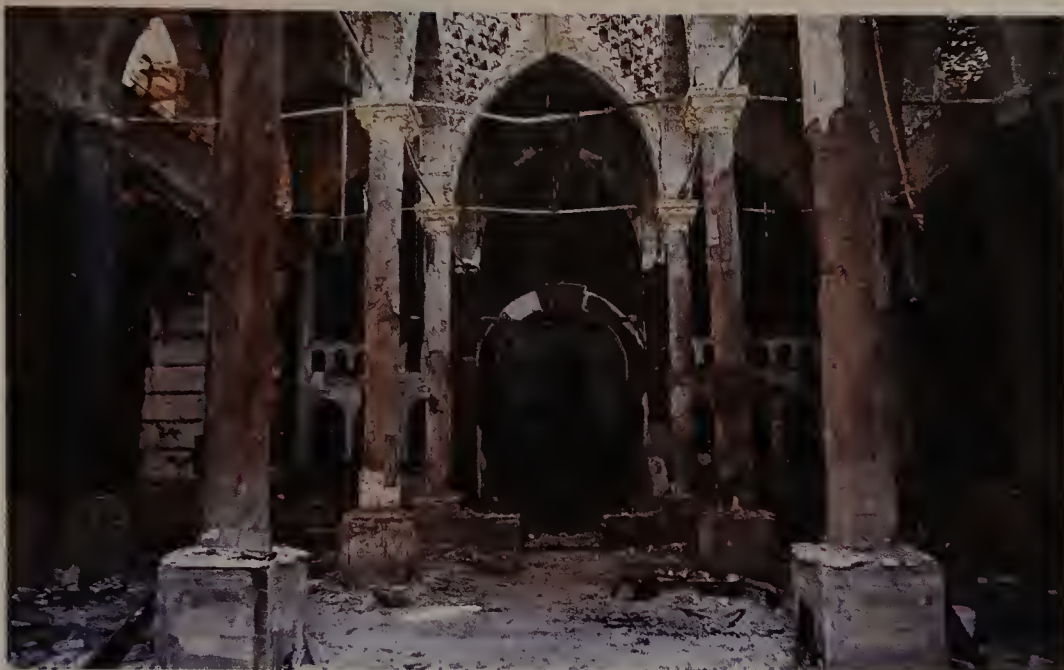
PERCHED on the edge of a pretty valley in a remote corner of Fayoum province, south of Cairo, the town of Nazla is famed for a local cottage industry. Illegal workshops here produce *bumbas*, tiny parcels of pebbles and gunpowder that are the noisy bane of Egyptian celebrations. On August 14th, the townsfolk put their skill with explosives to a more novel use.

As word spread that police in Cairo had assaulted a sit-in by supporters of the Muslim Brotherhood, mosque loudspeakers blared a call for vengeance. An enraged mob smashed up the local police station and chased off its staff before venting its fury on Nazla's Coptic Christians, whose 270 clans support two churches and a monastery. The destruction was systematic and total. Every valuable was first carted off, from a complete computer lab to the ►►



A lot of them love their general, for now





The backlash against a church in Minya

► shiny new wooden pews in the Church of the Virgin, an incongruously majestic structure in the dusty town centre that was lovingly built and inaugurated only in April. Then, room by room, the raiders fire-bombed the buildings, with big enough explosions to lift up floors, bring down roofs and blast out every window.

The Copts of Nazla were relatively lucky. No one was seriously hurt. The intervention of kinder Muslim neighbours helped spare private Christian property from damage. Elsewhere in Egypt, on that day and since, similar pogroms have left at least 47 churches and monasteries damaged or destroyed, and at least seven people dead. In the province of Minya dozens of homes and businesses were attacked. Nowhere had police thought to reinforce security, and nowhere did they intervene promptly or with sufficient force.

Such troubles are not new to Egypt's Christian minority, which makes up about a tenth of the population of 85m. Beginning in the 1970s and coinciding with the modern rise of Islamic radicalism, the Copts have suffered sporadic attacks, especially in the impoverished south of the country, where their share of the population is higher. A minor jihadist insurgency in this region in the 1990s often targeted Christians, though one of the bloodiest single incidents came in January 2011, when the bombing of a church in Alexandria, on the Mediterranean, killed 21 people. But what is happening now is "much worse than the terrorism of 20 years ago," says Bishop Makarios of Minya.

The virulence of the latest campaign stems from a perception among many Islamists, but particularly followers of the puritan Salafist school, that Christians helped orchestrate the July 3rd coup that toppled Muhammad Morsi. During the Brotherhood's ill-fated sit-in, non-stop sermons frequently alleged Christian com-

plicity in a global anti-Muslim plot. Salafist television stations have repeated claims of arms being stashed in churches.

Waguih al-Shimi, a former member of parliament for Nazla from the Salafist al-Nour party, says that while he disapproves of targeting Christians he understands what motivates their persecutors. Many Muslims, he says, were angered when the Coptic pope, Tawadros II, appeared next to Egypt's defence minister as he announced the army coup. Salafist websites, according to Mr Shimi, have featured photographs showing soldiers raising the cross in triumph after shooting Islamist protesters. "Considering what has happened to Muslims," says Mr Shimi, "we can thank God it was only Christian property, not people, that got hurt." ■

#### Bombings in Iraq

## Bloodier than ever

BAGHDAD

Civil strife is now as vicious as it was five years ago

IN A country inured to violence, the scale and scope of recent attacks have shaken even the most hardened Iraqis. More than 500 have been killed in bombings this month, after some 1,000 perished violently in July—the highest number since civil strife tailed off five years ago. Yet these figures, tallied by Iraq Body Count, an independent web-based monitoring organisation, are only the most visible cause for alarm. Car-bombings and suicide-bombers have been a fact of life in central and northern Iraq for most of the past decade, but recent attacks reveal a level of co-ordination not seen for several years.

Many of the victims were killed by car-bombs detonated by remote control, a dozen or more at a time, in and around Baghdad. Security forces on the highest alert, with intelligence officers placed at checkpoints to brace them up, have failed to stop the carnage. Although the latest incarnation of al-Qaeda in Iraq is less capable than in previous years of attacking ministries and security installations, its multi-pronged attack last month on the prisons at Abu Ghraib and Taji, whence some 500 inmates escaped, pointed to a higher level of organisation, funding and—perhaps most dangerous of all—complicity within Iraq's security forces. At least 300 prisoners, many of them al-Qaeda men, are said still to be at large after the prison break, which involved suicide-bombers and fighters firing rocket-propelled grenades.

Another grim facet of the violence is its spread to the south, hitherto Iraq's calmest region after the semi-autonomous Kurdish area in the north. Only a group known as the Islamic State of Iraq and Syria, an al-Qaeda-linked umbrella that operates in both countries, is reckoned to be capable of co-ordinating attacks over such a wide area, yet its presence in the almost exclusively Shia-populated south had previously been thin.

#### Ghosts of the past

Some Iraqi security officials suggest that the wave of bombings in the south may have been the work of another group, a Baathist outfit called the Army of Men of the Naqshbandia Order, led by Saddam Hussein's elderly former right-hand man, Izzat al-Douri.

Moreover, the increase in violence has also partly been caused by sectarian fighting in neighbouring Syria spilling over the border. The route al-Qaeda fighters took from Syria to fight the Americans in Iraq is the same as one used by Sunni and Shia fighters coming in both directions to help their co-religionists.

Al-Qaeda has long sought to rekindle civil war in Iraq and bring down the government by attacking Shias. But the group has broadened the range of its targets to include mosques in mixed districts, attacking even tea-houses and football pitches, presumably in hopes of enraging the aggrieved Sunni minority against the newly dominant Shia majority.

Many such attacks occurred during the holy fasting month of Ramadan, which ended on August 8th. This did not stop many Iraqis, believing that the timing and manner of their death is anyway pre-ordained, crowding into Baghdad's gleaming new shopping malls and jolly amusement parks when sunset heralded the end of the day's fast. But just as many stayed at home or, having waited a decade for things to get better, are now desperately trying to leave the country for good. ■





Nigeria's most wanted man

## Dead or alive

ABUJA

The leader of Boko Haram's most violent faction may be dead, again

**A**N AIR of mystery has long surrounded Abubakar Shekau, the head of Boko Haram, a guerrilla group whose campaign for an Islamist state in northern Nigeria has led to the deaths of about 3,000 people in the past four years. Most of what is known about him is gleaned from sermons he has posted on the internet. He has been the voice of Boko Haram's most violent faction since its first attack on a prison, in the north-eastern state of Bauchi, in 2010. Clad in camouflage and body armour, flanked by Kalashnikovs and pointing aggressively into the camera, he calls for the application of sharia law across Nigeria.

On August 19th Nigeria's security forces declared that Mr Shekau, who has led Boko Haram for the past three years, may be dead. They say he was shot in a gun battle on June 30th in the north-east, and may have died between July 25th and August 3rd, after fleeing east to Cameroon.

Yet in a video aired on August 13th, a man resembling the burly, thickly bearded Mr Shekau claimed responsibility for the most recent attacks. The army says the man in the video, which has not been independently verified, is an impostor. But this is the fifth time the rebel leader has been pronounced wounded or dead.

Mr Shekau had been second-in-command to Muhammad Yusuf, Boko Haram's founder, who was killed in police custody in 2009. Since then he has radicalised the movement and overseen more deadly and

### Telecoms in Ethiopia

## Out of reach

NAIROBI

The government expands the mobile-phone network but tightens its grip

**E**THIOPIA has Africa's last big telecoms monopoly. The absence of competition has seen a country of more than 80m lag badly behind the rest of the continent in an industry that has generally burgeoned alongside economic growth. Mobile-phone penetration, which averages 70% of the population elsewhere in Africa, is closer to 25% in Ethiopia. A paltry 2.5% of Ethiopians have access to the internet, compared with 40% in neighbouring Kenya.

Ethiopia's authoritarian leaders are as keen as any on the economic benefits of modern telecoms but fear the political ramifications; pesky dissidents become even more irritating when wired. That explains a \$1.6 billion agreement with China's two leading telecoms-equipment companies to upgrade its network. The deal with Huawei and ZTE will preserve Ethiopia's state dominance and further put off the opening up of one of Africa's largest economies.

A deal in 2010 between France Telecom and Ethio Telecom was seen in some quarters as a step towards privatisation and competition. It drove down calling costs but appears to have faltered with the recent departure of Bruno Duthoit, the French chief executive. Little further improvement is likely now, says Markos Lemma, a local entrepreneur.

What the government wants from China are cheap loans and more control over its citizens. The new deal will provide soft loans to buy a Chinese-built 4G broadband network for the capital, Addis Ababa, and an expanded 3G network for the rest of the country. A similar deal with the same companies in 2007 expanded Ethiopia's mobile-phone subscriber base but did little to shorten its digital lag.

Hopes that other companies might get a look in were always optimistic. The prime minister, Hailemariam Desalegn, has dubbed the telecoms industry a

"cash cow" needed to pay for a rail link to neighbouring Djibouti. Ethio Telecom delivers more than \$300m a year to the state coffers. Customers grumble that its slogan should be "Disconnecting Ethiopia from the future".

The country is one of the world's last big untouched telecoms markets. The government could earn as much as \$3 billion from auctioning licences. But the powerful security services have routinely objected. The Committee to Protect Journalists, a New York-based free-speech lobby, accuses the government of conducting a "systematic effort to control all forms of communications" after it passed laws imposing prison sentences of up to 15 years on anyone caught by-passing online censors. Yidnek Haile, a student in Addis Ababa, was arrested two years ago for showing customers at an internet café how to make online calls.



It's China calling

co-ordinated attacks. The United States has offered \$7m for information leading to his arrest. Some say he is 35 or 36, others that he may be 44; such uncertainty adds to his mystique. He lacks his predecessor's charisma yet plainly wields power over an inner circle whose members pass his orders to the foot soldiers.

If he is truly dead, his passing would mark the end of an era for Boko Haram. Over time, it has splintered into factions, and it is unclear how much Mr Shekau co-

ordinates them. If his death is confirmed, offshoots of the group may perhaps be willing to engage the government in talks and even to declare a ceasefire.

Yet since his alleged demise, at least 70 people have been killed in bombings and shootings in Borno state. Co-ordinated lethal attacks are still taking place, contradicting repeated military claims that the insurgents are being snuffed out. If Mr Shekau is still alive and reasserts his leadership, his allure will be greater still. ■





## Turkish politics

## Lonely command

ANKARA

**The prime minister rules the roost, despite setbacks at home and abroad. Lack of serious opposition helps**

**W**HEN Recep Tayyip Erdogan, Turkey's prime minister, returned to power in 2011 for his third successive term he triumphantly declared that the next five years would mark an era of "mastery" for his Islam-tinged Justice and Development (AK) party. His dreams included elevating himself to the presidency when it comes up next year and getting the AK-dominated parliament to endow it with executive powers. AK would run Turkey until 2023, the centenary of Atatürk's republic.

His opponents gloomily conceded that Mr Erdogan would have his way. At least they did until June, when mass protests erupted across the country in an unprecedented show of defiance against a decade of increasingly illiberal AK rule. Popular backing for the party slipped below 50%. Mr Erdogan looked vulnerable and acted scared, even banning political slogans at football matches.

The protests began over plans to rip out a clutch of trees in Istanbul's main Taksim Square. Police brutality helped them spread: five protesters, most of them from the Alevi minority, died. Mr Erdogan's reputation, already damaged by Turkey's unhappy habit of jailing journalists (more than any other country), frayed further. His ranting that the "international interest-rate lobby" (Jews) and their Western media

stooges (including this newspaper) had orchestrated the protests supported claims that, surrounded by sycophants, he was no longer fit to govern.

This week Mr Erdogan thunderously blamed Israel for the coup in Egypt which ousted his biggest Middle Eastern ally and ideological soulmate, Muhammad Morsi, earning stiff criticism from America. Other dents in Mr Erdogan's neo-Ottoman pretensions come from Syria, where Turkey has vainly sought to topple Bashar Assad. Instead, jihadist groups are recruiting locals to their cause. Turkish officials acknowledge that Jabhat al-Nusra, labelled "terrorists" by America, may have been behind car-bombs in the border town of Reyhanli that killed 53 people in May. Coming just before Mr Erdogan's talks with Barack Obama in Washington, the attack may have been intended to warn Turkey against doing America's bidding and taking on the jihadists.

Wounded al Nusra fighters "no longer receive VIP treatment", says Sefik Cirkin, a member of parliament for the opposition Nationalists, who is from Reyhanli. Yet, Syrian Kurds, who are fighting the jihadists for control over mainly Kurdish areas in northern Syria, insist that Turkey is egging them on. This is in turn undermining Turkey's efforts to make peace with its own

Kurds. The Kurdistan Workers' Party (PKK), a rebel group which has been fighting for self-rule inside Turkey since 1984, has set an October deadline for the government to enact reforms to satisfy the Kurds' demands for more rights. If not, the rebels warn that a ceasefire that has held since April may be ended.

Mr Erdogan is also at odds with Fethullah Gulen, Turkey's most influential Muslim cleric. He commands a global empire of media outlets from his self-imposed exile in rural Pennsylvania; his followers are said to have infiltrated the judiciary and the police in large numbers. The Gulen-affiliated Journalists and Writers' Foundation has issued an 11-point manifesto rebutting claims of plots against Mr Erdogan. Ankara is awash with rumours that Mr Gulen will instruct his flock, which some reckon accounts for as much as 5% of the electorate, to vote against AK in municipal elections in March.

These elections are now billed as a referendum on Mr Erdogan and his party. Might AK even lose its great prize of Istanbul, where he first made his mark as mayor in the mid-1990s by bringing water to the once-arid city of 14m? Probably not. The latest polls suggest that AK again commands about 50% of the vote. Mr Erdogan's conspiracy theories may have discredited him abroad, but they have galvanised AK's pious base. He cites the coup in Egypt as proof of his allegations.

A faltering economy could yet damage Mr Erdogan. A large part of AK's appeal has come from a decade of economic success. Yet the years of easy growth are over, and Mr Erdogan's government is shying away from the reforms needed to rekindle it. Moreover, like all emerging markets Turkey ►►

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Charlemagne is on holiday

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## Greek privatisation

# Business class

ATHENS

An already floundering agency loses its boss, again

RARELY is a Greek official sacked for “ethical reasons.” An exception is Stelios Stavridis, the boss of Taiped, the privatisation agency, who was dismissed on August 18th. His mistake was to have flown on a private jet belonging to a Greek oil tycoon, Dimitris Melissanidis, one of the buyers of a 33% stake in Opa, the state gambling company, hours after the €652m (\$872m) deal was signed. A picture (below) of Mr Stavridis sitting next to a smiling stewardess appeared in *ProtoThema*, an Athens tabloid.

Mr Stavridis denies wrongdoing: he merely accepted Mr Melissanidis’s offer of a lift home to the island of Kefalonia to resume his summer holiday, rather than take a commercial flight the next day. Conveniently, the plane was due to make a refuelling stop on Kefalonia before taking Mr Melissanidis and his friends to France. The explanation failed to save the third Taiped boss to go in 13 months: yet

another sign of the woes besetting Greece’s privatisation programme. The policy is contentious and the centre-right government of Antonis Samaras has only a five-seat majority in parliament. The main opposition party, Syriza, says it will reverse all the sales.

At this rate, that won’t be hard. International creditors’ original target of 50 billion in revenues by 2016 was cut to a more realistic 15 billion. Only 5 billion has been raised so far. This year’s flagship sale, of the gas utility, Depa, expected to raise close to 1 billion, collapsed when Gazprom, the only shortlisted bidder, pulled out at the last minute amid worries in the European Commission about its market-abusing habits. When Germany’s finance minister, Wolfgang Schäuble, broke a taboo by admitting publicly this week that Greece would need yet another bail-out, he was merely stating the obvious.



Stelios Stavridis, on a flight to nowhere

► faces waning investor appetite. The current-account deficit, now over 6% of GDP, and excessive reliance on domestic demand make Turkey vulnerable: the central bank has just raised interest rates. Even so Ahmet Akarlı of Goldman Sachs sees no signs that the Turkish sell-off is worse than others. “Continued growth potential, a demographic premium and a skilled labour force” mean Mr Erdogan could yet meet his goal of joining the world’s top ten economies, he says.

A reform package that offers the Kurds just enough to keep the peace process running is expected next week. Turkish officials say it includes provisions for the re-opening of the Greek Orthodox seminary on the island of Halki and state subsidies for Alevi houses of worship. These are like-

ly to give long-stalled membership negotiations with the European Union a sorely needed boost.

Mr Erdogan’s greatest boon is the lack of a credible alternative. The main opposition Republican People’s Party (CHP) continues to be bogged down by squabbles between the Kemalist old guard and reformers led by its chairman, Kemal Kilicdaroglu. “The protests gave the CHP a big opportunity to net undecided voters but it was missed,” says a disgruntled CHP lawmaker. Mr Erdogan could yet strike a deal with Mr Gulen. And he may come to terms with his greatest potential rival, the sitting president, Abdullah Gul, who could (having rejoined it) take over the party if Mr Erdogan became president. But the era of “mastery” seems gone for good. ■

## Germany’s election

# Party season

BERLIN

In a tight election, differences blur and hints of deals abound

WHAT a sorry state Germany’s two big political blocs are in, a month before the election on September 22nd. In the 1970s more than 90% of West Germans voted for the two “people’s parties”: the “red” Social Democrats (SPD) and the “black” Christian Democrats (CDU) and their Bavarian sister party, the Christian Social Union. The difference was clear: red stood for unions and fairness, black for conservatives, business and the church.

But the people have deserted the people’s parties. In the 2009 election, almost half the voters chose smaller competitors: chiefly the Greens, the Left and the Free Democrats (FDP). The blacks and reds have also lost members: the CDU 40% since unification in 1990, the SPD almost 50%. In a recent poll 69% of voters said they could not even tell the difference. It was an SPD-led government that pushed through labour-market reforms in 2003. The government of the CDU chancellor, Angela Merkel, has been inching leftward, ogling everything from rent controls to a minimum wage.

This week the SPD’s chairman, Sigmar Gabriel, sidled away from its most distinctive policy: higher income taxes and a wealth tax. They were “not sexy”, he said: a crackdown on evasion and avoidance might be better. His party’s leftists winced, but others detected a sign of willingness to form a grand coalition with the CDU, as in Mrs Merkel’s first term after 2005. She has declared herself open to the idea.

In a presidential system like America’s, her job would be safe. Fully 63% of Germans prefer her to Peer Steinbrück, the SPD’s candidate. But in Germany “popularity does not prevent you from being voted out,” gloats Jürgen Trittin, one of two leading Green candidates. In January a popular CDU premier was ejected in Lower Saxony, when its election gave opposition parties a majority of a single seat.

Mr Trittin, an ex-communist who wants to be finance minister, would love to see Mrs Merkel forced out of office in the same way. His party’s roots are in the 1970s’ counter-culture. The Greens first entered the Bundestag 30 years ago with a pacifist, anti-nuclear agenda. Awkwardly, they are now being reminded of other goals, such as decriminalising non-violent sex with children. An internal investigation is under way. On this, the anticlerical Greens may find some unusual sympathy with the scandal-strewn Catholic church.

But on most other fronts, the Greens ►►



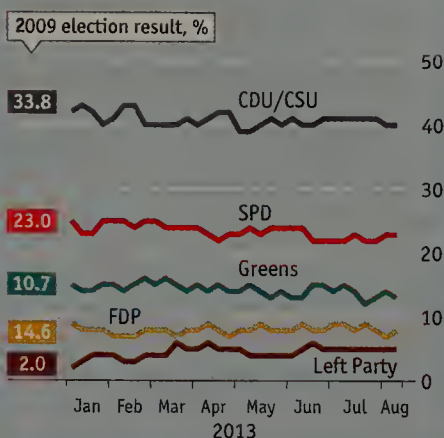
► have won. They are the only party in parliament to have gained members (44%) since unification. They have taught Germans their zealous recycling habits (brown glass in one container, green in another). Mrs Merkel's most surprising U-turn, made after the Fukushima disaster in Japan in 2011, was to phase out all nuclear power plants by 2022.

Having, in effect, pinched the Greens' energy policies, Mrs Merkel might now find it easier to form a coalition with them. That would be pleasant if it involved only the party's pragmatic *realo* wing, strong in states like Baden-Württemberg. It would be much harder with Mr Trittin's left-wing *fundis*. Their influence has made the Greens more radical than the SPD on such issues as redistribution.

Besides black-red (ie, CDU-SPD) and black-green, other coalitions, once thought improbable, are now possible. One is a "traffic light" of red, green and yellow—the colour of the FDP. The FDP is usually dismissed by the left as free-market fundamentalist, but Mr Gabriel's tax musings may point to a softening. More radical would be a coalition of the three leftist par-

### The Merkel effect

Support for German political parties, % polled



ties, which between them may win nearly half the votes. That would bring in the Left, a party still seen as unfit for government by many, even in the SPD, because of its Communist roots. A prosecutor is investigating whether its parliamentary leader, Gregor Gysi, lied under oath about his ties to the East German Stasi (secret police). But he hints he might be open to a deal. ■

## Ukraine and Russia

# Trading insults

KIEV

### A trade war sputters as the tussle over Ukraine's future intensifies

NOBODY could accuse Sergei Glazyev of ambiguity. New Russian trade restrictions with Ukraine were a warning against the "suicidal" step of signing an association agreement with the European Union, said President Vladimir Putin's chief economic adviser. And if it went ahead, the rules could become even tighter. For its part, the EU termed Russia's stance "unacceptable".

Russia is making increasing efforts to deter the biggest country in its former empire from looking west and to prod it into joining the rival, Kremlin-led Eurasian Customs Union instead. As an EU summit in Vilnius in November nears, the means include soft power (talk of a shared Orthodox heritage), carrots (cheap gas and access to markets) and sticks (trade sanctions).

Russia wielded the stick in July with a ban on confectionery produced by Roshen, a big Ukrainian company, allegedly because it contained carcinogens. This was odd: other customers had not complained. On August 14th Ukraine's employers' federation, whose members account for 70% of GDP, said stricter Russian customs procedures were paralysing trade. Russia accounts for a quarter of Ukraine's

exports; the restrictions could cost up to \$2.5 billion in the second half of the year, the group said. Roshen said it will lay off 400 workers. Zaporizhstal, a steelmaker, has pre-emptively halted exports to Russia. Its parent company, Metinvest, owned by Ukraine's richest man, Rinat Akhmetov, has complained about delays and selective searches that damage goods.

But the pressure seems to have been applied unequally. Only some businesses reported blockades. Others said goods flowed unhindered. The leading light in the employers' federation is Dmitry Firtash, an influential tycoon who once ran a lucrative gas intermediary called RosUkr-Energo (now defunct), and whose business interests are closely linked to the Russian market. Putting pressure on him, some think, could be a good way of reaching Ukraine's president, Viktor Yanukovich.

The losses from the trade squeeze may be less than claimed. Dragon Capital, an investment bank in Kiev, put the figure close to \$500m. Ukrainian officials now say Russia has backed down, though nobody in Moscow has confirmed this. At any rate, Ukraine is in no position to wage a trade war. Record payments to redeem foreign

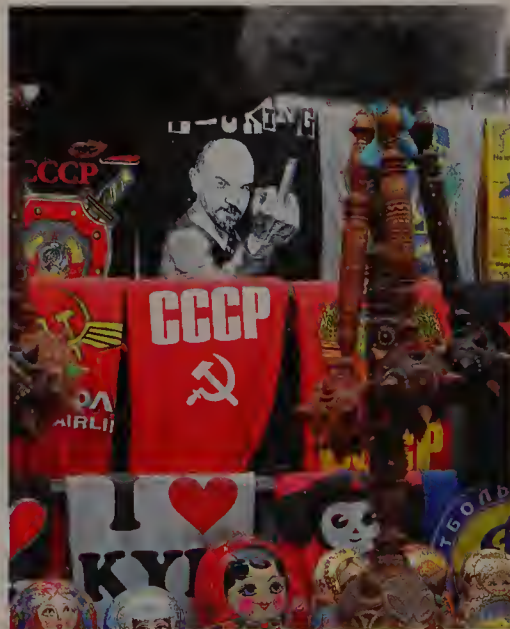
debt are due this year. The economy is in recession and foreign-currency reserves have tumbled below the safety threshold of three months' worth of imports.

Russia can also apply pressure on other fronts, such as gas. Ukraine is approaching winter still 3.5 billion cubic metres (bcm) short of the paltry 12.5bcm of reserves it plans to have for the start of the "heating season" on October 1st. Last year it had 20bcm. Naftogaz, the state gas company, is drowning in debt and burns a growing hole in the state budget each month.

In previous years, Russia's attempts to apply political pressure by cutting gas deliveries have hit Ukraine—and EU countries that import Russian gas through it. Wojciech Kononczuk of OSW, a Warsaw think-tank, estimates that Ukraine should have at least 5 to 6bcm more by now. The Kremlin will watch and wait as its negotiating position strengthens, and Ukraine's weakens, he reckons. A gas war is unlikely: there will be a deal, the only question being whether, for Ukraine, it will be "very bad or just bad".

Another tussle with Moscow concerns the airwaves. Mr Firtash owns Ukraine's biggest television channel Inter, while his oligarch colleagues control the bulk of the media market. Taras Berezovets, a political consultant, says the Kremlin has lost the "information war" against Europe, and now needs the oligarchs' assets to catch up. "This is not just a trade war, it's a war over the minds of the Ukrainian people."

Mr Yanukovich, who faces re-election in early 2015, is caught between these constraints. A deal with the EU would be popular, but an economic crisis or conflict with the oligarchs would dash his chances. In the long run Russian sanctions could benefit Ukraine, just as they did when imposed on Georgia in 2008. Its producers were forced to raise standards and compete globally. But Mr Yanukovich and Ukraine may not have that long. ■



Souvenirs of a common history



## Human rights in Russia

## Grim to be gay

MOSCOW

The plight of gays prompts calls for a boycott of the Sochi Olympics

SINCE Russia was awarded the 2014 Winter Olympics, it has had to deal with everything from cost overruns to the historical grievances of the Circassian diaspora and concerns over an Islamic insurgency in the north Caucasus. But an issue that the authorities did not foresee, nor seem yet to understand, now threatens to spoil its ambitions most of all.

Legislation signed by President Vladimir Putin in June outlaws “propaganda of non-traditional sexual relations” among minors. Such imprecise wording—what exactly constitutes “propaganda”?—means it could be enforced widely or not at all. So far, it has not led to a single case.

As with other recent moves, such as the ban on adoptions by Americans and the criminalisation of blasphemy, the motive seems more political than moral. A deputy from the pro-Kremlin United Russia party speaks of protecting the country against the “destruction of its fundamental cultural codes”. It is easiest to define those codes by what they are not: Western, liberal, modern. Masha Lipman of the Carnegie Moscow Centre, a think-tank, says the Kremlin has sought to “isolate and stigmatise” such people, while creating a myth of a new Russian identity from a hotchpotch of Orthodox piety, traditional values and provincial distrust of urban elites.

Gays and lesbians make easy targets. Russia is socially liberal on adultery, abortion and divorce, but attitudes to homosexuality resemble those in the West of a gen-

eration ago. Soviet-era doublethink about sex is compounded by the role of male rape in prison culture, and the stigma attached to its victims: *opushenny*, “made low” or debased, for life.

Yet unease and distaste, more than overt hostility, have governed public attitudes. The existence of gays and lesbians is tolerated as long as they are not seen to “contaminate” the public square, says Tanya Lokshina of Human Rights Watch, though the near-invisibility of gays and lesbians has let prejudice and misunderstanding fester. A poll by the Levada Centre found that 80% of respondents do not have a single gay acquaintance. Alexander Smirnov, who was asked to quit his job at the Moscow mayor’s office after he came out in *Afisha*, an arts and culture magazine, says gays are seen as “alien people”.

Now the new law adds an emotive slur to latent prejudice, by linking homosexuality and paedophilia. That resonates with a cultural idolisation of childhood purity. More than three-quarters of Russians polled say that they support the ban on gay “propaganda” to minors. In principle, the law appears to prevent any public defence of the rights of gays and lesbians—in effect, says Polina Andrianova of Coming Out, a campaign group, creating a “socially unequal” caste.

Even more worrying, she says, the law has implicitly given a “green light to aggression”. A nasty new trend is the posting of videos online showing gay men tricked into meetings where they are humiliated by vigilantes. Police treatment of gay-rights protesters has been harsh. Igor Kochetkov, another campaigner, notices “disillusionment and depression” among Russia’s gays; a poll finds that the number who experienced harassment or pressure doubled in the past year to 50%.

Russian officials still seem baffled by the idea that outsiders really care about the

issue. Spurred by campaigners calling for a boycott of the Olympics, foreign governments have complained. An official of the International Olympic Committee says it is “not happy”. It tried unsuccessfully to warn the government that the new law presented a potentially “massive issue”, but its calls went unheeded.

The IOC is now waiting for a written document from a deputy prime minister, Dmitry Kozak, which should give what it calls “cast-iron assurances” that the propaganda law will not affect participants or spectators. Other Russian ministers have said repeatedly that the law will be in full force during the Olympics. A compromise for Sochi is likely—but given Mr Putin’s political priorities and society’s attitudes, the outlook for Russian gays is dark. ■

## Dutch immigration

## Overflow

EEMSHAVEN

Worries about workers from eastern Europe are changing Dutch politics

THE Eemshaven landscape is as Dutch as can be imagined: broad pastures and grain fields, punctuated by canals and the stately houses of 18th-century planters. The huge new power stations rising at this northern port evoke modern Dutch design, with rectilinear Mondrian-like turbine housings and aquamarine lights. But missing from this perfect Dutch landscape are Dutch people. The 5,000 workers are overwhelmingly Polish and Portuguese, housed in container units stacked in fields.

After a year of recession, with unemployment rising past 7%, the Dutch are increasingly resentful of immigration and of the European Union’s rules that make it unavoidable. Last week the vice-prime minister, Lodewijk Asscher, tapped the resentment. In a newspaper opinion piece co-written with David Goodhart, a British pundit, Mr Asscher likened rising migration to a “Code Orange”, Dutch parlance for a severe flood warning. “In some places,” he wrote, “the dykes are on the point of breaking.”

Mr Asscher represents the Labour Party half of the Netherlands’ centrist coalition, led by the Liberal prime minister, Mark Rutte. Both parties are threatened by anti-immigration rivals: the Liberals have been leaking voters to the far-right Freedom Party of Geert Wilders, while Labour has lost even more support to the far-left Socialists. Under EU rules, work-permit requirements for Bulgarian and Romanian citizens are due to expire on January 1st, and Labour is worried that an influx of new immigrants would expose it to attack. ►►



Gay activists wage war on Russia’s cultural codes



The dyke-break metaphor is a hoary one in Dutch politics, but it touches deep roots. As Simon Schama observed in "The Embarrassment of Riches", a history of the Netherlands' golden age, such imagery abounds in the literature of the country's 16th-century war of independence. It blended the political threat to the country's existence with the physical one. During the euro crisis Mr Wilders slammed Mr Rutte's government for "throwing money over the dykes" to bail out Greece. Another Labour politician has complained of a "tsunami of east Europeans".

The actual complaints are more prosaic. The number of people from formerly communist EU member states living in the Netherlands is still small, for a country of 17m, but it has shot up since the EU enlarged in 2004 (see chart). Amid a prolonged slump and record numbers of bankruptcies, Dutch construction workers complain that they cannot compete with foreigners willing to accept low wages.

Studies commissioned by the Ministry of Social Affairs show that most east European immigrants take jobs that no Dutch worker would accept, such as picking vegetables in greenhouses. They pay more in taxes than they claim in benefits. The government blames the problems on shady recruitment firms, which dock workers' pay for housing costs or otherwise maltreat them. Mr Asscher promises to crack down on such abuses.

Unions say the problems run deeper. Almost all foreign employers at Eemshaven, they claim, were paying wages below the rates agreed in industry-wide collective bargaining; they win contracts with such low bids that it would be impossible to follow Dutch labour law and make a profit; long chains of contractors obscure pay rates from regulatory scrutiny.

For the Freedom Party and the Socialists, meanwhile, Mr Asscher's approach is a useless halfway measure. They want a return to a strict regime of work permits to keep low-wage workers out—even if it means flouting EU rules.

At the core of the growing Dutch anxiety are abstract arguments, not practical

ones. The Netherlands is a small, wealthy country with generous social welfare, where wages and benefits have traditionally been settled in national bargains between employers, workers and government, a system named after the very "polders" (reclaimed tracts of land below the water line) which surround the plants in Eemshaven. It has struggled to absorb previous waves of immigration. Now the EU has opened a channel between that orderly and pampered world and a labour supply which is used to far worse pay and conditions. Dutch workers are trying to imagine just what it would take for those levels to equalise. ■

## Organised crime in Italy

# Gangsterland

ROME

## Brave mayors lose heart in the battle against the mob

ASK Elisabetta Tripodi if she is starting to feel lonely, and she replies, "A little." Ms Tripodi is mayor of Rosarno, one of Italy's most mafia-ridden towns. She was one of three female local-authority chiefs in the southern region of Calabria who won nationwide attention for their courage in defying the 'Ndrangheta, an organised-crime group that began locally and spread internationally. (It controls much of the transatlantic cocaine trade.)

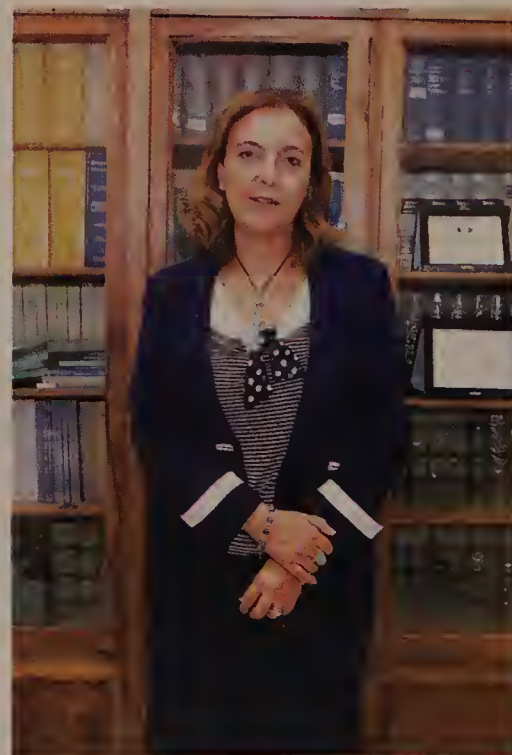
The pioneer in a region known for rampant *maschilismo* (male chauvinism) was Carolina Girasole, elected mayor of Isola di Capo Rizzuto in 2008. She was followed by Ms Tripodi in 2010 and by Maria Carmela Lanzetta in Monasterace. All three endured vicious intimidation. Now only Ms Tripodi remains. Ms Girasole was voted out in May after losing the support of the centre-left Democratic Party. A few days later, two flats belonging to her family were set ablaze—a suspected "goodbye and good riddance" from the 'Ndrangheta. On July 30th Ms Lanzetta resigned. While she was mayor, her pharmacy was burned out and her car shot up.

The most serious threat to Ms Tripodi was subtler. Six months after taking office, she received a letter from a jailed 'Ndrangheta "godfather" complaining she had evicted his mother from an illegally built house. Chillingly, it was written on council stationery. She has lived ever since under police guard. At a meeting with the three women last month, Laura Boldrini, speaker of the Chamber of Deputies in Rome, said: "You wanted and want to do normal things. But in certain areas what is normal is considered extraordinary—so extraordinary as to be perceived as unacceptable."

Ms Tripodi, who is halfway through her mandate, says: "I consider it an achievement to have got this far. Everyone was ready to bet I'd give up after six months."

The experience of these mayors has been typical of individuals and groups who take a stand against organised crime in Italy: three steps forward, followed by two back. But it shows that popular resistance to organised crime is growing. Until recently, this resistance was largely confined to Sicily. One of the first initiatives there was Addio Pizzo, an association founded in Palermo by four young people who wanted to run a bar without funding Cosa Nostra (the movement takes its name from *pizzo*, the slang word for an extorted payment). Its website has a searchable directory of its member organisations: shops, bars and restaurants whose owners refuse to pay up and shut up. That is easier said than done on an island where an estimated 70% of commercial establishments hand over a proportion of their earnings to the Mafia.

One that does not is the Antica Focacceria di San Francesco, which sells traditional Sicilian street food in eight Italian cities and at Fiumicino airport, near Rome. It began its expansion to offset losses it suffered in Palermo after its owners, the Conticello brothers, fingered the mobsters who had tried to extort them. They allied with Feltrinelli, a publishing house with left-wing roots which hosts the bakery's outlets in many of its bookshops. Feltrinelli now owns 95% of the company and in January took a majority holding in the original Focacceria in Palermo. "We tried to hold out, for sentimental as well as economic reasons," said Vincenzo Conticello. "But the recession forced our hand, along with the threats from the Mafia." ■

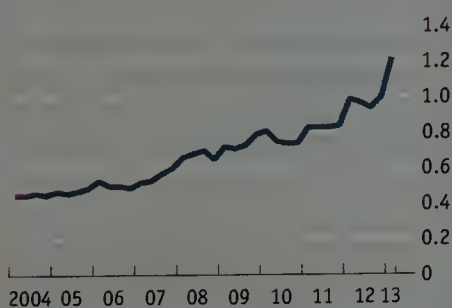


Elisabetta Tripodi: last woman standing

## Making their mark

Eastern Europeans\*

% of employed labour force in the Netherlands



Source: Statistics Netherlands

\*The 10 ex-communist EU states





Suburban London

# Trouble in Metroland

**CROYDON**  
London's suburbs and commuter towns are suffering from the growing gravitational pull of the inner city

CROYDON, on London's southern fringe, has never been chic. It is known for the "Croydon facelift", a painfully awkward hairstyle, as well as for being the setting of "Peep Show", a tv sitcom featuring painfully awkward characters. The town has nonetheless seen better days. Between 2001 and 2011 it lost 20,000 jobs, or around 15% of the total. Its house prices remain 9% lower than they were five years ago. Though its leafy southern parts are full of affluent commuters, the northern half of the town increasingly resembles a poor part of inner London: discount stores and payday lenders predominate. Riots there in 2011 were as bad as anywhere in the city.

Across London's suburban fringe and in some of the commuter towns ringing the capital, job growth has stagnated in the past decade as it has roared ahead in inner London (see chart). In places like Croydon and Romford, an east London suburb, office blocks are being demolished or converted to housing. In inner-city Canary Wharf, meanwhile, the number of jobs has quadrupled since 2001. London's economic growth is concentrated in the middle: it tends to spill only as far as central spots like Shoreditch and King's Cross. The trend may eventually turn the capital's social structure inside out.

This is a startling change, says Tony Travers of the London School of Economics. For almost a century—beginning roughly with the arrival of big American manufacturers such as Hoover and Ford in

the 1930s—jobs spread across south-east England like spilt water. In the 1950s and 1960s many firms moved out of central London to offices at the edge of the city or in the new towns built around its edges, following an ever more suburbanised workforce. They were officially encouraged to do so: new office development in central London was briefly banned, while posters on the London underground advised firms to "move out before London costs strangle your business."

Even a decade or two ago, one of the most dynamic business clusters in south-east England was beyond the western edge

of London, along the M4 motorway. Now technology firms are leading the charge to the centre. Google will build its new British headquarters near King's Cross. In the 1990s it would probably have plumped for a business park, says Carl Potter of GVA, a property firm. O2 and Nokia, both telecoms firms, have established new offices in central London. Construction of new out-of-town office space has fallen by around 90% since 2007, according to GVA.

This shift in the city's economic balance is beginning to be mirrored socially. Overall, inner London remains far more deprived than suburbia. But Alasdair Rae, a demographer at the University of Sheffield, calculates that the gap narrowed greatly between 2004 and 2010. Gentrification is one reason, particularly in places like Hackney, where more people are moving in from other parts of Britain than are going the other way: a rarity for London. Another reason is that people who can no longer afford inner-London rents are moving to suburbia. House prices have risen ►►

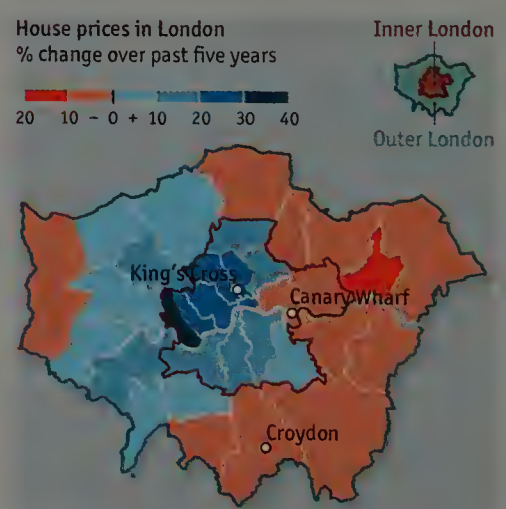
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## Bright lights, small city





much more in inner London in the past few years (see map).

Businesses are moving to the middle for several reasons, says Jon Neale, of Jones Lang LaSalle, a property consultancy. Planning is one: since the 1990s urban-renewal policies have made it easier to build in city centres. That has boosted Manchester and Birmingham as well as London at the expense of out-of-town office parks, which look increasingly dilapidated. The expansion in the night-time economy in the 1990s and 2000s made cities more pleasant places to work. Foot-loose businesses—particularly in the technology sector—rely more on being close to their clients and competitors than they used to, says Mr Neale.

### Abandoning the net curtains

But perhaps the strongest force is social. Today's 20-somethings are marrying and having children later. Many more are university educated. They are less likely to drive—fewer 21- to 29-year-olds have driving licences than did so a decade ago—which makes offices that can be reached quickly by bike, bus or train far more desirable. All of this keeps them in cities, as do falling crime rates, lower pollution and better schools: three ways in which London has improved in recent years. Gentrification proves self-reinforcing, as new restaurants, bars and other businesses open to serve—and employ—gentrifiers.

In the inner city, that process has attracted more affluent professionals. Meanwhile, the suburbs are experiencing problems once distinct to the urban core. They remain popular, especially with aspirational Indian and African families. But as jobs disappear, their economic appeal diminishes. Commuting can be difficult, especially on lines that fill up with ever more commuters from farther afield. And the arrival of poorer incomers, displaced from the inner city by high property prices, irks existing residents. In Croydon, as in several outer-London boroughs, burglary rates have risen in recent years, defying an overall decline.

Croydon may well turn itself around. Its 1960s centre will soon be rebuilt to include an enormous shopping mall. The MP for Croydon Central, Gavin Barwell, reckons that young professionals will want to move to bright new high-rise flats near the railway station. New transport infrastructure—in particular Crossrail—may boost suburbs such as Ealing and Ilford too, by bringing people quickly to new jobs in the centre. But the flow of jobs to the middle of London, and poor people to the suburbs, looks likely to continue. Perhaps that is no bad thing. Concentrated poverty created many of the inner city's problems in the first place. Even if London's poor become a little more spread out, the city as a whole could still end up richer. ■

### Anti-terror laws

## Miranda rights and wrongs

**A law designed to prevent terrorism is misused**

MIRANDA warnings, as fans of American cop shows know, begin by informing thugs that they have “the right to remain silent”—quoting a Supreme Court ruling in 1966 in favour of Ernesto Miranda, who had not been told this. In Britain, the same name is becoming a rallying point against different legal excesses.

On August 18th the Terrorism Act 2000 was used to detain David Miranda, a Brazilian who was carrying materials for the *Guardian* newspaper between two journalists: Laura Poitras, a documentary filmmaker in Berlin, and Glenn Greenwald, a resident of Rio de Janeiro and *Guardian* reporter who has written stories based on leaks by Edward Snowden, a former contractor for America's National Security Agency. Mr Miranda was questioned for nine hours at Heathrow airport, the maximum allowed under the act. His laptop, a hard drive and even his digital watch were confiscated.

It initially appeared as if Mr Miranda had been targeted because he is Mr Greenwald's partner. Yet the detention seems to have been for what he may have been carrying, not who he is. Theresa May, the

home secretary, justified it by pointing to the danger that classified material could fall into the wrong hands. If the police believe somebody might have “highly sensitive stolen information” they can act, she explained. She was informed in advance of the detention, as were Downing Street and the White House. She claimed it was not within a minister's power to intervene in a police matter. “Long may that continue,” she said.

Yet it is surely within her remit to question the detention of Mr Miranda, and in particular its legal grounds: why, otherwise, were she and other officials notified in advance?

The Terrorism Act 2000 was aimed at Irish republican terrorism. One section gives police exceptional powers to question travellers at British borders for up to nine hours—without suspicion and without a lawyer. Refusal to answer is itself a crime. (Mr Miranda was forced to divulge encryption passwords.) Police may seize property, though it must be returned. The only constraint is that the purpose should be to ascertain if the person “is or has been concerned in the commission, preparation or instigation of acts of terrorism”.

### Mightier than the pen

This looks preposterous in Mr Miranda's case, if the term terrorism is to have meaning. The editor of the *Guardian*, Alan Rusbridger, decried the incident as “conflating terrorism and journalism”.

The authorities are certainly more assertive these days. Mr Rusbridger disclosed that, a month ago, officials from Britain's spy agency, GCHQ, oversaw the smashing up of computers that contained copies of the leaked documents in the newspaper's basement—even though other copies existed in Brazil and New York, whence much of the reporting was emanating. Even the White House press secretary opined that America would not resort to that.

The police defended their use of the act as “legally and procedurally sound”. Yet David Anderson QC, who oversees compliance with the act, points out that it is unusual. During the questioning, the police said Mr Miranda would be in for a full nine hours. Mr Anderson is looking into whether the police applied the act correctly or if they abused their authority.

A move to reform the anti-terrorism law, including a reduction of the maximum time of detention to six hours, is already underway—supported by Mrs May—and is set to be debated in Parliament this autumn. Lord Falconer, who helped introduce the legislation and later became Lord Chancellor under Tony Blair, says that the act “does not apply, either on its terms or in its spirit, to Mr Miranda”. Perhaps one day British police officers will get their own Miranda rules. ■



Someone will be there to meet you



# Bagehot | Go away, we need you

In Britain, xenophilia runs almost as deep as xenophobia



A MARTIAN who landed in Britain in the past few weeks—assuming he managed to get a visa—would take it for a place that dislikes visitors. Xenophobia has been the theme of the summer: enough bile has flowed about and towards immigrants to fill the English Channel. And yet, if he lingered, the Martian might find himself being asked how health care was organised on his planet, or how its retailers were coping with the internet. Sooner or later he would be stood a round in a pub.

Because, beneath the hostility, another view of outsiders has been on display: a respect that sometimes borders on reverence. This sentiment is intimately bound up with the suspicion and is just as perennial. One day it might even predominate.

The most egregious little-Englander stunt was the Home Office's dispatch of vans bearing the slogan "Go Home or Face Arrest" to cosmopolitan bits of London. The supposed targets were illegal immigrants, but the vans offended not only British-born ethnic minorities but also various ministers in the coalition government. Even Nigel Farage, leader of the micro-Englander UK Independence Party (UKIP), denounced them.

Meanwhile Labour's immigration spokesman inveighed against businesses hiring cheap foreign labour, partly retreating when his facts collapsed. Disparaging Britain's overseas-aid spending, a UKIP clown referred to recipient countries as "Bongo Bongo Land". The tireless struggle to deport foreign Islamists and repel Eurocrats goes on. Inevitably, every tirade comes with the glib rider that most Britons agree with it.

They do—and they don't. Consider the different reception afforded some other arrivals. Mark Carney, the new governor of the Bank of England, was always likely to win friends with his plan for enduringly low interest rates. But his Canadian accent and foreign pedigree helped bewitch his audience. Normally tough MPs on the Treasury select committee fawned over him. David Cameron's recruitment of Jim Messina, Barack Obama's election manager, to help the Conservatives' next campaign was universally regarded as a coup. (Labour also has an American adviser, the Liberal Democrats a South African.) The big news on the back pages has been the return of José Mourinho, a suave Portuguese football coach, to Chelsea Football Club.

In the British imagination, foreigners are scroungers and car-

petbaggers—but they are also experts and sophisticates. Foreigners have secret knowledge. They age more gracefully. They eat better food and wear nicer suits. They understand that social democracy does not rule out the pluralistic provision of public services. They can speak more than one language. They are more grown-up about adultery.

There are a number of superficial explanations for this contradiction, none very convincing. One is that different Britons welcome and rebuff immigrants. Surveys do suggest that attitudes vary somewhat: Londoners and the better-educated tend to be more hospitable. Yet the view that immigration is too high is widespread, particularly among whites. Appreciation for immigrant virtues is broadly felt, too. Britons like the exotic food even if they decry the apocryphal pinching of jobs. Ipsos MORI, a pollster, found that 70% think immigration is a problem for the country—but, confusingly, only 18% said it caused trouble in their area.

Another possibility is that the respect and the revulsion are aimed at different sorts of foreigners. It is true that Brits are better-disposed to highly skilled workers and students (who often go home) than to the alien lumpenproletariat. But few have a bad word for the foreign nurses and porters who keep their hospitals running. And elite interlopers can find their glamorous otherness flips into a liability: successive England football coaches have been extolled as gurus, then excoriated as mercenaries.

Finally, you might speculate that the discrepancy is a product of economic doldrums and disruptive globalisation. But the drumbeat of spite has long been accompanied by a chord of warmth. Britons have wanted fewer foreigners for 50 years, even as the influx has varied (though they worry most when the numbers are high). They have always taken a shine to them, too.

Think of the American GIs who came during the second world war, at once resented as flash Harrys and lionised. Four decades earlier a sociologist researching attitudes to Jews—who inspired Britain's first immigration laws—found new arrivals disdained as "dirty and disreputable". But those who had lost the beards and sunk a few pints were "pronounced to be good fellows" and "command respect, especially among the habitués of the public-house". Two centuries before that, Huguenot refugees from France were mocked for their affectations—and saw their fashion and recipes tacitly copied. They were "profitable strangers", a mental category that has existed, quietly, ever since.

## An island story

Bagehot speculates that this complex runs deep. An island nation, Britain has always feared (and occasionally experienced) invasion. But it has also earned its keep through trade, and done a fair bit of invading itself. Fear and curiosity are both natural responses. The empire that Britain conquered, then lost, seems to have reinforced that old duality. It bequeathed both a phantom pride and a reverse tendency to self-deprecation: a sense of being grander than others, yet spurned and surpassed by them.

Still, history is not always destiny, and may even be its own cure. Britain is still an island, but invasion is no longer much of a threat. The empire is slipping from living memory, perhaps taking the delusions of grandeur with it. These days lots of children are intimately familiar with immigrants, and polls suggest that acquaintance with them breeds acceptance rather than contempt. Improbable as it might seem this summer, newcomers could eventually experience more of Britain's buried congeniality than its noisier gruffness. ■





## Remembering the Holocaust

# Bearing witness ever more

JERUSALEM

The study of the Holocaust is expanding worldwide—for differing reasons

**A**CROSS the globe, schoolchildren study the industrialised slaughter of Jews by the Nazis. Holocaust museums in America, Israel and Poland each draw more than a million visitors annually. The UN has passed two resolutions in the past decade to institutionalise memory of the Holocaust worldwide. Yad Vashem, an Israeli museum and remembrance authority, trains 10,000 domestic and foreign teachers every year. “Interest is growing immensely,” says Dorit Novak, the director-general. Membership of the Association of Holocaust Organisations (AHO) has increased from 25 in the late 1980s to over 300. Commemorative museums have opened from Germany and France to Brazil and Japan. Of the 16,000 books on the Holocaust listed in America’s Library of Congress, more than two-thirds were published in the past two decades.

In its immediate aftermath, the Holocaust went largely unacknowledged. Perpetrators and bystanders preferred to forget. Commemoration began in Israel, where many survivors had gathered. But even there it was done quietly. For the exuberant young country the slaughter of European Jews was an uncomfortable image of passivity and presumed feebleness. A 1960 study showed that barely a quarter of schools taught children about the Holocaust. Only when Israelis came to feel an existential threat during successive wars

with Arab neighbours did that change.

In 1982, the education ministry made teaching about the Holocaust compulsory for all children. Coverage in history textbooks increased from 20 pages in the 1960s to 450 in the 1990s. Today, every Israeli schoolchild spends a semester studying the history of what they call the *Shoah*, along with further coursework in literature, music and art classes. Some 200,000 students and soldiers tour Yad Vashem annually, the soldiers carrying their guns. The state has managed to draw great strength from keeping alive the memory of the murdered.

Yet over time the depiction of mass slaughter has changed. When Israel was meek, it stressed the heroism of the Warsaw ghetto. Now, with reassuringly powerful armed forces, the focus is more on victimhood. Schools teach that “we need a strong army because the world hates us,” says Dan Porat, a professor of Jewish education in Jerusalem. Domestic critics have called some Israeli history teaching simplistic. The Holocaust is at times presented as evidence of a lack of Jewish national spirit, they say, rather than an excess of Germany’s. Government offices exhibit photos of Israeli air-force jets flying over the death camps of Auschwitz. On Holocaust memorial day, inaugurated five years after the founding of Israel, politicians routinely present the country’s foes as

would-be annihilators. “All our [current] dangers are viewed through the prism of Auschwitz,” says Avihu Ronen, a lecturer in Jewish history at Haifa University.

In the West, it fell to the media to stimulate public discussion of the Holocaust. Early works struck themes familiar to Israelis. “Schindler’s List”, a 1993 Hollywood film about a German businessman who bribed Nazi officials to shield his Jewish employees, turns from black-and-white to colour when the survivors arrive in Jerusalem. More recent Western depictions have diverged from the Israeli narrative. Europe’s young, now three generations removed from the killing, flinch from guilt imposed by elders. According to Centropa, an educational centre in Vienna, students respond best to Holocaust teaching when first told about the Jewish past they have lost. “If they relate through Franz Kafka’s ‘Metamorphosis’, the Jews of Prague and Weimar culture, they will learn about the Holocaust through the backdoor,” says Edward Serotta, Centropa’s founder. Dutch schools draw pupils in by holding commemorative walks to buildings that once housed Jews.

Unlike Yad Vashem, which portrays Jews as outsiders in Europe who find redemption in Israel, new Jewish museums in Austria and Poland present Jews as an intrinsic part of European heritage and culture. “It shocked me,” says Mr Porat after a visit. “I never thought of Jews as being Poles.” The exhibition at Yad Vashem ends with a display of Israel’s declaration of independence and the playing of the national anthem, whereas European equivalents emphasise a Jewish rebirth in places where massacres happened (Berlin has the world’s fastest-growing Jewish community—from a very low base).

America may have the world’s second- ▶▶



▶ biggest Jewish population but, with no death camps to commemorate on its soil, it follows a surprisingly universal path in Holocaust teaching. Museums and syllabuses are often used as pathways to examine genocides in general, focusing on the dangers of "racism, bigotry and intolerance", says Dan Napolitano, director of education at the Holocaust Memorial Museum in Washington, the largest of America's 30 museums and 70 centres on the subject. An increasing number offer courses for soldiers, lawyers and policemen that warn against the abuse of power.

Discussing the Holocaust in the context of other human horrors is popular in Latin America, Africa and Asia as well. Richard Freeman, who runs the oldest of South Africa's three Holocaust centres, has used Nazi race laws to examine white rule. "There are very close parallels between Germany's establishment of a racial state in 1933-39 and South Africa's apartheid state," he says. "The separation of communities, the ban on mixed marriages—it's a powerful link." In Senegal, a UN official in charge of promoting memories of the Holocaust in Africa has spoken of using it as a way "to develop remembrance about slavery". Argentine pupils examine the Holocaust in the light of who was responsible for their own dictatorship a little more than a generation ago.

### Moral equivalence

Later this year AHO, the world's biggest Holocaust association, is to stage China's first international conference on the topic in Harbin. The north-eastern city once had a thriving Jewish community, but a more important stimulant for local interest in the conference will be parallels to be drawn, rightly or wrongly, between the Holocaust and Japanese wartime atrocities. The Imperial Japanese Army used the city for experiments on humans, including vivisection and dropping anthrax from low-flying planes, killing an estimated 400,000 people.

Methods developed by early Holocaust centres have become guides for memorials to Asian tragedies. The Tuol Sleng Genocide Museum in Cambodia and a Chinese museum commemorating the "Rape of Nanking" by Japanese soldiers in 1937 have drawn on Yad Vashem. "Israeli people did a great job of teaching the past," says Xiaowei Fu, director of the Judaic studies department at Sichuan University in Chengdu. She has tried to drum up interest in the Holocaust with an essay competition offering a cash prize.

In some places, the Holocaust now overshadows the conflict that fuelled it. Indian history textbooks devote much of their second-world-war coursework to the slaughter. "Imagine yourself to be a Jew or a Pole in Nazi Germany. It is September 1941, and you have been asked to wear the

Star of David," instructs a tenth-grade textbook called "India and the Contemporary World". Here and in some other places, the Holocaust is seen as the core event of the 20th century in Europe, and it thus draws millions of tourists to its memorials. Last year, 46,500 South Koreans visited Auschwitz, only a few less than Israel's 68,000.

The main geographic exception to the growing global interest in the Holocaust is the Muslim world, where it is commonly viewed as a dramatisation meant to win sympathy for Jews bent on grabbing Arab land. None of the three main UN information centres in the Middle East marks Holocaust Day. "I cannot really speak about the Holocaust in Iran," says a UN official in Tehran. Iran's recently retired president called the Holocaust a myth. In parts of Paris with a lot of Muslims, some schools have reportedly removed mention of the Holocaust from the syllabus for fear of appearing pro-Israel. "I know of cases in which the teacher mentioned Auschwitz and Treblinka [another death camp], and students clapped," wrote Georges Bensoussan, a French historian, in a 2004 study of immigrant schools.

Nonetheless, Western Holocaust centres are making inroads in the Muslim world. The internet allows circumvention of local censors. The Aladdin Project, a Paris-based initiative, has staged Holocaust lectures from Beirut to Baghdad, praising Arabs who offered refuge to Jews fleeing persecution in the 15th century. Next month, Washington's Holocaust museum will hold its first training programme for Arab educators. The UN's Palestinian refugee agency, which runs schools for the children of Arabs who fled Israel at its founding 65 years ago, repeatedly tried to teach Holocaust classes but was thwarted by Ha-

mas, the Islamist group.

It is not only Westerners who want to talk about the Holocaust in Middle Eastern schools. Morocco may become the first Arab country to put Holocaust teaching on its syllabus. King Mohammed VI has long sought American congressional support by wooing Jewish groups. Members of the Berber ethnic minority also champion it to win support for their struggle to reverse 1,400 years of Arabisation; they have taken Holocaust courses at Yad Vashem and translated teaching material into their vernacular, Tamazight. "We're trying to relate the Jewish physical genocide to our cultural one," says Massin Aaoud, a Marrakech travel agent who helped to organise a Holocaust road show in southern Morocco two years ago.

Perhaps the biggest threat to remembrance of the 6m Jews killed by the Nazis is trivialisation. "The Holocaust has lost its specificity," says Eckhardt Fuchs, a German academic preparing a study of textbook coverage worldwide. Politicians in America and elsewhere routinely employ the Holocaust as a rhetorical device to denote evil. The term has cropped up in comic books and heavy-metal music. Even in Israel, mentions are increasingly casual; farmers upset at diminishing returns from tomato concentrate have called ketchup their Auschwitz. Israeli politicians flock to Holocaust survivor beauty contests. A joke popular among Israeli schoolchildren asks, why did Hitler kill himself? (Answer: he read his gas bill.) In Britain, some teachers use the Holocaust as a lesson against bullying, reducing Nazis to schoolyard thugs. Treating it as a neat moral issue, warns Paul Salmons, a British academic, could devalue study of the Holocaust regardless of its proliferation. ■



Yad Vashem, Israel's official memorial to the Jewish victims of the Holocaust





## Fiat and Chrysler

## Hoping it will hold together

The union of Fiat and Chrysler has better chances than both carmakers' previous alliances—but the road ahead may be bumpy

**S**HADY car dealers sometimes “cut-and-shut”, welding together two badly damaged vehicles to create a new one that looks sound but is always at risk of falling apart. Chrysler was close to the scrapyard when America’s carmakers sought bankruptcy protection in the wake of the financial crisis. Fiat acquired an initial 20% stake in 2009 in a deal with the Obama administration, and saved the company. Now the Italian carmaker is on course to take full control of Chrysler and merge the two firms into a global giant. But is their pairing an accident waiting to happen or a new model that will run smoothly for years?

Fiat was itself heading for the breaker’s yard in 2004, when Sergio Marchionne, a new boss, came in and turned it around. More recently the slump in Europe—where car sales are at a 17-year low—has led to big losses at Fiat. It would again be in serious trouble were it not for its stake in a newly profitable Chrysler, which it has increased in stages to 58.5%. Fiat’s hope of salvation is to get its hands on Chrysler’s cash to pay for a turnaround plan that will keep both companies running.

Much progress has been made on integrating the two carmakers’ manufacturing operations. The next challenge for Fiat (whose chairman, John Elkann, is also on the board of *The Economist*’s parent company) is to lift its Chrysler stake above 75%, at which point it will be able to use the

American firm’s cashflow to finance itself. It has tried to exercise options over the remaining 41.5%, which a trade-union health-care trust, VEBA, acquired as part of the government’s bail-out plan. But the two sides are at odds over the price of the latest tranche, which will set a precedent for the rest. The case is being thrashed out in a Delaware court.

There is no doubt that Fiat will get its hands on the remainder of Chrysler, with a deal probably struck by the end of the year, reckons Philippe Houchois of UBS, a bank. VEBA needs to sell, either directly to Fiat or through an IPO, to raise money for the growing medical bills of retired car workers. What is unclear is the price: any-

where between Fiat’s valuation of \$1.8 billion and the \$4.3 billion that VEBA wants.

Chrysler’s cash—perhaps up to \$12 billion—is vital to keep Fiat going. It has been forced to scrimp on new models. Mr Marchionne worries that he is now “cutting bone”. His view is that, to keep up with rivals such as GM, Toyota and Volkswagen, the merged Fiat-Chrysler must turn out 5.5m-6m vehicles a year, compared with 4.1m now (see chart), and sell more premium-priced cars. To achieve this will take time and a lot of money.

Will it work? Chrysler’s last association with a European carmaker, an ill-fated takeover by Daimler in 1998, ended nine years later when the exasperated Germans sold it to a private-equity firm. Daimler’s bosses belatedly realised that it made little sense pulling together a maker of technically complex luxury vehicles and a mass-market firm that churned out pickup trucks and SUVs. One of Mr Marchionne’s first jobs on taking charge of Fiat was to end a troubled alliance with GM.

At first sight there is not much overlap between Chrysler’s butch Dodge Ram pickup trucks and Jeeps and Fiat’s tiddly 500s and Puntos. But at least both firms are mass-market operations with similar cost structures, argues Philip Watkins of Citigroup, a bank. As Chrysler owes its existence to Mr Marchionne, its managers have given him the benefit of the doubt as he has got stuck into turning the firm around. His informal management style—he likes to wander about in a jumper—has probably helped too.

Since Chrysler has little of its own to offer in small cars, it needs Fiat to provide platforms such as Alfa Romeo’s Giulietta and its excellent small-engine technology to comply with America’s increasingly strict fuel-economy standards. And build- ➤

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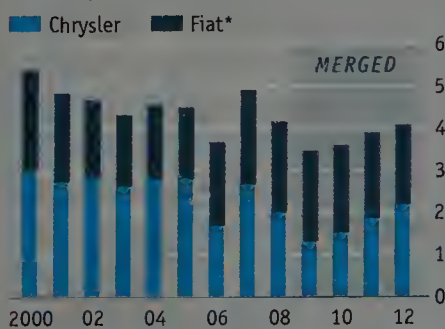
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## Italian style, American muscle

Car and light-commercial-vehicle sales  
Worldwide, m



Source: Company reports

\*Excludes Ferrari and Maserati models



ing copies of Chrysler's worldwide hits, such as Jeeps, in idling Italian factories is a way to make use of spare capacity that Italy's politics make it hard for Fiat to close.

Europe's depressed car market is not the only reason Fiat needs Chrysler. Conditions in Fiat's most important market, Brazil, are getting harder. A Fiat insider cheerfully and accurately characterises the firm as a Brazilian carmaker with a few factories in Europe. Its Latin American operations earned profits of €224m (\$292m) in the second quarter of 2013 compared with a loss of €98m in Europe. Fiat is Brazil's biggest carmaker, with 22% of the market. But once-fabulous margins, 15-17% in 2005-07, have dwindled to about 8%. Carmakers such as Renault, GM and China's Chery are now ramping up production at factories they had been encouraged to build by the previously strong margins and by a change in the tax system to favour local production. This, and the slowing of Brazil's economy, mean margins will surely fall further.

The tie-up with Chrysler may help in Asia, where Fiat lags behind other big carmakers. Though it makes money in China, a car it launched there based on the Giulietta was a flop. Jeep's models have better prospects, but the slow start made by both Fiat and Chrysler and lack of a heavy-weight Chinese partner mean that they may never be as strong in China as GM.

### Moving upmarket

Like Peugeot-Citroën and Opel-Vauxhall (GM's European arm), Fiat sees a belated move upmarket as both its salvation from chronic European losses and a way into the wallets of the emerging world's new rich. It plans to boost the sales of Maserati, its luxury-sports-car division, with a more affordable model, the Ghibli. It hopes that at least some buyers of successful German luxury cars like the BMW 5 series can be tempted to abandon Teutonic efficiency for Italian flair. Another Maserati saloon and an SUV are set to follow. The plan should produce good profits, says Max Warburton of Sanford C. Bernstein, a research firm, and the target of selling 50,000 Maseratis a year seems realistic—though BMW is unlikely to lose sleep.

Another element of Fiat's plan to sell a more profitable mix of cars is Alfa Romeo, a cheaper marque than Maserati. Alfa currently makes only two models, though the 4C, a sleek sports car, will arrive soon. New medium-sized saloons and SUVs are also planned. But it will be an expensive gamble trying to get buyers to desert the big German premium-car makers, which keep powering ahead with constant improvements to their model ranges. Peugeot has already spent a lot trying to do this, with little to show. Mr Marchionne, for all his denials, has been unable entirely to quell speculation that Fiat might sell Alfa-Romeo, as it has contemplated doing before.

The merged Fiat-Chrysler will probably chug along, neither attaining the dominant scale of a VW or Toyota nor the profitability of smaller carmakers like BMW and Jaguar Land Rover. And there is no obvious successor to Mr Marchionne, a clever strategist who has saved two carmakers from oblivion but cannot go on for ever. His joining of two of the world's weakest firms into one that stands a chance of long-term survival has been a triumph for those whose jobs depend on them. But for the rest of the rich world's carmakers, it has kept alive a lot of capacity that they would rather have seen close. Fiat-Chrysler's rivals must wish Mr Marchionne had never picked up his welding gear. ■

### Sportswear-makers

## The adidas method

HERZOGENAUACH

### A German firm's unusual approach to designing its products

TEN years ago sportswear-makers were cramming ever more features and futuristic designs into their products. They were convinced that the consumer bought, say, training shoes based on their technical specifications. But in 2004 James Carnes, today adidas's creative director for sportswear, and a Danish consultant named Mikkel Rasmussen met at a conference in Oslo at which Mr Rasmussen challenged this notion. A mobile phone, he said, may have 72 functions, but that is 50 more than most people wanted, or used.

Mr Carnes was intrigued, and so began an almost decade-long engagement for ReD, the small consultancy Mr Rasmussen co-founded in Copenhagen. In that decade adidas's sales and share price have grown steadily, alongside those of Nike, an American firm that is the global leader in sportswear (see chart). It remains far ahead of Puma, its crosstown rival. The two German firms, based in Herzogenaurach in Ba-

varia, were founded by brothers, Adi Dassler (hence adidas's name) and the older Rudolf (Puma), who fell out.

Nike's brash marketing is based on offering big cheques to star athletes to endorse its products. Puma spends an even greater share of its revenues on marketing, and has pushed into non-sporting casual clothes. Its sales have grown, but they remain far behind its main rivals'. Adidas takes a quieter approach, spending less of its revenues on marketing than the other two. Although about a third of adidas's sales are also "lifestyle" goods, sportswear remains at the firm's core.

To succeed in a business with tight margins, adidas has had to get the nuts and bolts right. Like its rivals it has outsourced production to cut costs, for example. But with ReD's help it has also made handsome stuff that American rappers mention in their lyrics, and it now has prominent designers offering to co-operate on projects. Mr Carnes gives generous credit to the geeks at ReD, saying that they have had "a general effect on everything".

ReD has some curious methods. It hires ex-academics, largely anthropologists and ethnologists, to study customers' motivations intimately. ReD trained a group of adidas design staff in basic techniques, and sent each of them to spend 24 hours with a customer: to have breakfast, run and do yoga with them, and find out what made them exercise. In a related project, an anthropology doctoral student working for ReD mailed dozens of customers a disposable camera, asking them to photograph something that made them work out. Of 30 women who responded, 25 sent a picture of a little black dress, says Mr Carnes. The company had assumed that most customers were training to be good at specific sports; in fact for many, fitness itself was their "sport".

Spending weeks with both the professional and amateur divisions of Bayern Munich football club, ReD's researchers asked not how long the studs on their boots should be, but what would determine the success of a footballer in ten years' time. They learned that top European clubs had all become proficient at teaching the necessary skills. The thing that could not be taught, and could only to a small extent be trained, was speed. So adidas adapted one of its track shoes into an exceptionally light football boot. When released in 2010 it became an instant hit—and it scored far and away the most goals in that year's World Cup.

Intimate study of customers has influenced aesthetic design too. Adidas got the job of creating the host country's uniforms for last year's London Olympics. ReD found that for all their patriotism, Brits did not get terribly moved by traditional images like the monarchy and double-decker buses. So adidas and ReD told Stella ▶▶







A Stella success

▶ McCartney, their chosen designer (pictured, centre), to think “untraditionally British”. She made a splash by putting the Union Jack’s red only on shoes, socks and trim, while making elements of the flag so big that on some shirts they were unrecognisable. Despite some initial criticism it was a commercial hit.

Similar research into national identity is going into next year’s football World Cup uniforms. When Russians were interviewed about what made them proud, “nothing past 1970 ever came up,” says Mr Carnes. Instead they mentioned Dostoevsky, the second world war and winning the race into space. So Russia’s uniforms will feature a curve representing Yuri Gagarin’s view from orbit.

Adidas has set an ambitious €2 billion (\$2.7 billion) sales target for its football division alone in 2014, up from €1.5 billion in 2010, the last World Cup year. Overall, the company wants €17 billion in sales by 2015, at the same time increasing operating-profit margins to 11% (from 8% now). Zany as some of its methods sound, equity analysts seem convinced that they will continue to pay off. In a recent poll of 34 analysts by Reuters news agency, none recommended selling the shares, and 25 labelled them as “buy” or “outperform”.

Adidas’s 2006 takeover of Reebok, another sportswear firm, was a rare misstep. It has taken far longer than expected to turn around. The main risk adidas faces, says Erwan Rambourg, an analyst at HSBC, is that its heavy spending to gain market share in America and China does not pay off. A strengthening euro is another. But adidas’s many admirers believe that the company’s disciplined habits, and its novel approach to product research, should help it leap over any such hurdles. ■

## Multinationals in China

# Guardian warriors and golden eggs

SHANGHAI

The state’s crackdowns on big firms are not all about bashing foreigners

FOREIGN companies love to complain about doing business in China. The rules of the game are rigged against them, they grouse, the locals are corrupt and the government is always turning the thumb-screws on them. Amid such moans it is worth remembering that, for all the barriers that foreign multinationals face in China, it has welcomed them with open arms compared with the protectionism imposed by Japan and South Korea at comparable stages in their economic development. Nevertheless, the recent spate of high-profile crackdowns on international firms, and people associated with them, has prompted worries about a generalised anti-foreigner backlash.

This week police in Shanghai formally arrested a British fraud investigator, Peter Humphrey, whom they had detained for six weeks as part of an inquiry into alleged bribery of doctors by foreign drug firms, along with his wife, also an investigator. Mr Humphrey had done work for Glaxo-SmithKline (GSK), a British drugs firm, four of whose Chinese managers were arrested last month. Since these arrests other foreign drugmakers have come under investigation, including Sanofi and Eli Lilly. All three firms say they will co-operate with the inquiries. There have also been crackdowns on alleged price-fixing by foreign manufacturers of milk formula, and regulators are scrutinising the prices charged by foreign carmakers and their joint ventures with local firms.

Now foreign technology firms are worried that they may be next. Chinese nationalists were outraged when Huawei, a local telecoms-equipment giant, was black-listed last year by American politicians on unsubstantiated allegations of spying. But they grew apoplectic when Edward Snowden earlier this year revealed the extent of American spying on China. Official media outlets have since been calling for the expulsion of Cisco and other leading American technology firms, dubbed the “eight guardian warriors”.

This has made some observers nervous. Rhodium Group, a consultancy, gave warning that “The implications for business prospects of foreign firms operating in the world’s second largest economy are potentially far-reaching.”

So, is the new Chinese government really about to boot out the foreigners? Not likely. Cut through the official media’s hype about greedy foreigners and it seems

that a mix of motives is at work.

Consumers are growing ever angrier about the cost of living in China’s main cities, be that the soaring prices of homes, health care or safe food. So it seems the government, which despite its tight grip on power does care about public opinion, is putting on a noisy show of trustbusting. Foreign firms are not the only targets: recent action on alleged price-fixing by jewellers and the distillers of spirits, for example, nabbed only Chinese firms. The antitrust regulator is now promising to get tough on telecoms and banking—two industries dominated by domestic (and indeed state-owned) firms.

In contrast the drugs industry is dominated by foreign firms. Doctors are underpaid and thus highly susceptible to being incentivised to peddle pricey pills. Most patients have to pay for their treatments, are angry at how much they cost and blame graft among health professionals. So by cracking down on alleged bribery by the foreign drug firms, the new Chinese government of Xi Jinping is also fulfilling another promise it made on taking office last year, to stamp out corruption.

## A crutch for lame ducks

In many industries where local firms compete hard with foreign-backed ventures, the Chinese firms are struggling. Often their products are perceived as lower-quality (cars, for instance) or unsafe (dairy products). The economic slowdown is making things worse for them. Although regulators, by getting tough with the foreign firms first, are propping up some local lame ducks in the short term, they may be setting a precedent, and softening up public opinion, for when they eventually turn on the local firms.

As for the foreign technology firms, and the fear that a nationalist backlash will drive them away, it is true that some in officialdom and in the online Weibo-sphere are eager to see their departure. And there is some evidence of such firms losing a contract here or there. However, it will be bizarre if China were to chase away these firms in the same way that America has seen off Huawei. American technology firms are the world’s best. America does not need Chinese technology, whereas China most certainly needs access to American inventions.

In all, life for the many multinationals operating in China may get more difficult, with further cases of harassment by officials likely to emerge. But it seems unlikely, in most cases, that they will be forced out of the country. China’s model of economic development depends, and has depended for years, on inviting in the world’s best companies, and—legally or otherwise—benefiting from their intellectual property. So why would China kill the goose that lays the golden egg? ■



## Semiconductors

## Serial disrupter

HSINCHU

**MediaTek has burst into the market for smartphone chips**

**T**AIWAN has a paradoxical claim to fame. The island of 23m people is home to many leading information-technology companies—few of which are well known abroad. Most of the world's personal computers are made by Quanta, Wistron or some other obscure Taiwanese firm, though they bear the names of Dell, HP or Lenovo. The processors in your smartphone or tablet may have been made by Taiwan Semiconductor Manufacturing Company (TSMC) and its touch-screen by TPK. And, especially if your device is Chinese, there is a good and growing chance that the chips were designed by MediaTek.

The firm entered the smartphone-chip market in 2011. That year just 10m smartphones were shipped containing its technology. Last year the number jumped to 110m. This year it expects 200m, plus 15m-20m tablets, which in all should account for 40-50% of revenue. In the first seven months of 2013, revenue was 35% higher than a year before, at NT\$70.5 billion (\$2.4 billion). Its profits for the first half were up by more than 60%. "We are very confident that in the next three to five years we will be in the top two vendors of systems-on-a-chip for smartphones," says Ming-Kai Tsai, the founder and chairman.

Mr Tsai is well on the way. Stuart Robinson of Strategy Analytics, a research firm, says MediaTek is already the fourth-biggest maker of smartphones' application processors (or "brains"), with a shade less than 10% of the market, a few points behind Apple and Samsung. America's Qualcomm is far out in front with almost half.

MediaTek sells more than just a set of plans for making a chip: it also provides "reference designs", a collection of drivers and other software that optimise the way a smartphone's other components work with the chip. "We supply beef, they create the dish," says David Ku, the chief financial officer. Clients can use the reference designs to rustle up basic fare, or create fancier recipes, for instance incorporating 3D screens or higher-quality sound.

Many of those clients are Chinese phonemakers almost unheard of in the West, such as BBK, Gionee, OPPO and Xiaomi. In China they are anything but unfamiliar. Domestic smartphone brands' share has soared from 25% to 70% in the past two years, as the market has expanded more than fivefold, according to Gartner, another research firm. But MediaTek's chips can also be found in phones

elsewhere in Asia, in the Middle East and Africa, and increasingly in the West.

In bursting into the smartphone market MediaTek is doing what it has often done before. Its method, explains Willy Shih, of Harvard Business School, has been to make technology simpler to use, lowering entry barriers for both itself and its customers. Founded in 1997, MediaTek began with controllers for CD-ROMS. It soon came up with a design needing one chip rather than several. Taiwanese manufacturers took it up; Toshiba, Sony and others followed. By 2000 it had captured more than half of a market once dominated by Japanese firms. That Mr Tsai is keen on the work of Clayton Christensen, author of "The Innovator's Dilemma" (and a colleague of Mr Shih's), comes as no surprise.

MediaTek moved on to chips for DVDs, televisions and, in 2004, basic mobile phones, for which it claims to have sold 500m units in 2010. It built the relationships with Chinese makers of cheap phones that have allowed it to break into smartphones so quickly.

Low prices are essential. In developing economies people do not enjoy the handset subsidies routinely offered by operators in rich countries, and cannot afford expensive phones. But both Mr Tsai and Mr Ku, who proudly shows off clever but cheap phones made by customers, insist that "low price does not mean low-end." Last month MediaTek announced a design using inexpensive but state-of-the-art technology licensed from ARM, a British company whose ideas underlie the chips in most smartphones and tablets.

Despite its rapid growth, MediaTek can expect opposition. It faces direct competition from Spreadtrum, a designer based on the mainland, in Shanghai. And the giant of the chip-design business, Qualcomm, is wise to the threat. It too has been selling reference designs, mostly to Chinese manufacturers, allowing them to develop Qualcomm-powered devices quickly—and thus strengthening itself in the mass market. Mr Tsai may not unseat Qualcomm, but he is on course to become its closest challenger. ■

## The executive-search business

## Searching for answers

NEW YORK

**Times are tough for some headhunters**

**I**N 1953 Gardner Heidrick and John Struggles left the management consultancy for which they worked, to found a new company which would focus on recruiting corporate bosses. It was the first of what would become the big five executive-search (or "headhunting") firms, and has been a leader in the recruitment industry for 60 years. The firm's placement of Eric Schmidt as the head of the then-upstart Google in 2001 is regarded as a signature success: he stayed in the position for a de-

cade, and still serves as the company's executive chairman.

Today Heidrick & Struggles is, well, struggling. Its revenues fell from \$616m in 2008 to \$444m last year, and over the past year its profit margin has been 3.4%—piddling by the industry's standards. In July its boss, Kevin Kelly, stepped down after its board said it was considering "strategic alternatives", including a sale.

Heidrick & Struggles's strong position in recruiting for financial firms left it vul- ►►



You can have the job, but lose the hat



nerable after the 2007-08 crisis. It compounded its woes by overreacting, cutting staff drastically and failing to pay its best recruiters competitively. That opened the door for rival firms to raid its talent. The market has recovered since, but the firm still has 25% fewer consultants than at the end of 2008. Mr Kelly sought to rebuild the business by offering "leadership" advice to senior managers, but these efforts are still at an early stage.

Like other headhunters the firm is also suffering at the top and bottom end of the recruitment market. At the lower end, employers seeking managers can now call up a huge database of potential candidates using LinkedIn, a professional-networking website, allowing them to cut out the middleman. And when it comes to filling the most senior jobs, although globalisation is increasing the size of the potential market, clients have begun to rebel against the fat fees charged by the largest executive-search firms: a third of the first-year salary for the position, plus a further "administrative fee". Both are charged even if a suitable candidate is not found.

Some users of headhunters have also taken umbrage at their "off-limits" clauses, in which they promise existing clients that they will not poach staff from them. That keeps many of the best candidates off new clients' shortlists. And they question the value they get for their money: an internal review by Heidrick & Struggles in 2009 found that 40% of the people it placed in jobs left within 18 months.

As a result, many employers are now doing their own searches for new bosses. A recent survey by HSZ Media, which studies the recruitment industry, found that in-house recruiting has increased by a quarter over the past five years. Scott Scanlon, HSZ's managing director, estimates that this trend is costing headhunting firms \$650m a year. In 2003 Time Warner, a media conglomerate, set up an in-house search group, which now includes 30 recruiters across three continents. "It's a business within a business, which could be competitive with any of the big outside firms," says Maggie Rubey Lynch, its director. She says the team hires better people in less time than before, and estimates that it has so far saved the company \$100m.

Most big headhunters have responded to this threat by investing in new capabilities. Korn/Ferry has gone on an acquisition spree. After buying PDI Ninth House, a leadership consultancy, it now derives 40% of its revenue from non-search sources, including assessments of managers and succession planning.

Russell Reynolds is concentrating on the growing need for technology staff among non-IT companies. Spencer Stuart is focusing on energy firms. And Zurich-based Egon Zehnder, the only member of the big five whose headquarters is outside

## Designer headphones

# The sound of music

Dr Dre's creation of a market for costly cans may herald the return of true hi-fi

FOR decades the market for expensive headphones was mainly limited to hi-fi buffs. But now that the boxy stereo system in the corner of the bedroom is largely a thing of the past, and young music fans listen mostly on portable devices, headphones have become as much of a fashion statement as the music player itself. Among the first to spot the potential of this market was Dr Dre, an American rapper-cum-tycoon. In 2008 he and Jimmy Iovine, a record producer, launched their Beats range of headphones, to great success. They have all but created a new product category: premium-priced (\$100-plus) cans whose sound quality is good enough, but which mainly sell on their brand image.

Beats Electronics and its founders have proved adept at using celebrity endorsements and product placement to plug their headphones. In America the company now has almost half the market for premium-priced cans, compared with 21% for Bose, a longer-established maker. Beats headphones are bassy: that's what hip-hop fans want, but might not suit opera lovers. Overall, though, they are a lot better than the earbuds that come free with most portable devices.

There is in any case a limit to how good music will sound through even the best headphones. Most of the music tracks on portable music players are in the form of mp3 audio files, in which the music has been compressed to make the files smaller and thus fit more of them into a given amount of storage capacity. Jim Anderson, a sound engineer who teaches at New York University, first plays his students an mp3 music file through good speakers, and then an uncompressed master recording of the same song: they are amazed at how much they have been missing, he says.

Since consumers have been persuaded, largely by Beats, that it is worth paying a fair whack for some half-decent headphones that look nice, perhaps they could be persuaded—especially since the

America, has sought to build up its presence in emerging markets. Damien O'Brien, its boss, says he expects those regions to account for a third of revenues within five years—though he admits that Chinese employers tend to resist the high-end fee structure, in which the firm is paid even if a job is not filled.

The strategy of Heidrick & Struggles, in contrast, will remain unclear until it com-



The man with the plan for flash cans

storage capacity of many portable devices is now huge—to turn their backs on cheap mp3s and seek out recordings in true high fidelity. Linn Records, an online distributor of high-resolution music files, sold around 60,000 songs between April and June of this year, most of them in the FLAC format, which compresses the music lightly, saving a bit of storage space, without any loss of quality. Apple's iTunes has a similar, though slightly lower-quality offering.

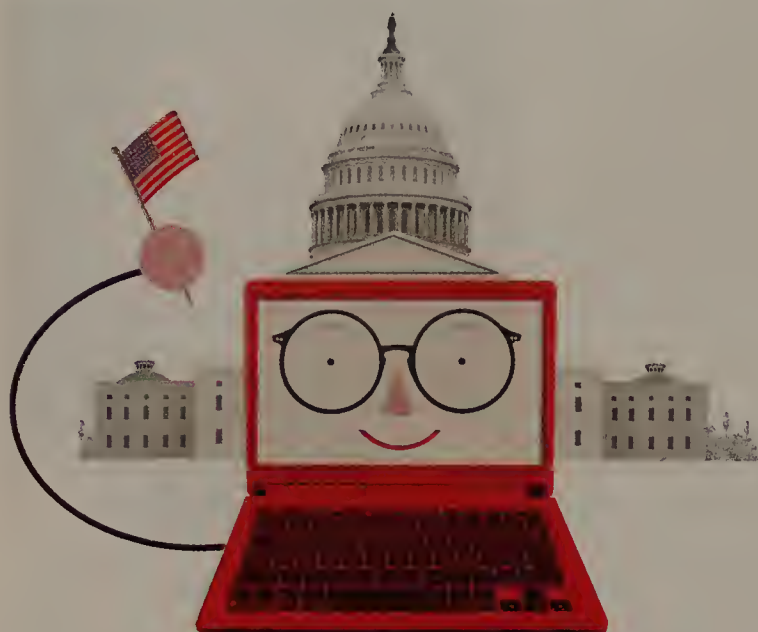
If sales of these hi-fi recordings take off it may boost the market for really top-notch cans like those of Grado Labs, another American firm. Grado has for decades relied on reviews in specialist magazines, and word-of-mouth recommendations from fans, to spread news of its headphones' faithful reproduction. In contrast to Beats, it has eschewed image-making: it has not advertised since 1964. Unlike Dr Dre, then, its fortunes are less tied to the fickle tastes and fast-changing fashions of the young.

pletes its own hunt for a new head. The board now says it intends to keep the company independent after all. Nevertheless, Mr Scanlon thinks it would be better for it to sell itself to a foreign buyer. He cites Recruit Holdings, a big Japanese human-resources firm seeking to expand in North America, as a "perfect matchup". And with its shares 70% below their 2007 high, "Heidrick is a very affordable company." ■



# Schumpeter | Mr Geek goes to Washington

America's tech tycoons are seeking to "hack" politics



FROM their corporate campuses on the west coast, America's technology entrepreneurs used to ignore faraway Washington, DC—or mention the place only to chastise it for holding back innovation with excessive regulation. They have, at times, invested in the low politics of self-interested lobbying—from chipmakers campaigning for protection from Japanese rivals in the 1980s to Twitter this month reportedly creating a “political action committee” to pursue its interests on Capitol Hill. Yet unlike Wall Street, which has long mixed that sort of lobbying with supplying leaders to some of the highest offices in the land and feeding in policy advice, tech tycoons have remained largely aloof from the broader affairs of the nation's capital.

Steve Jobs was a classic example of this disdain. When, late in his life, his wife persuaded him to talk to Barack Obama, he icily told the president he was “headed for a one-term presidency” because of his hostility to business. Later, as Walter Isaacson recounts in his biography of Jobs, the Apple founder hosted a dinner with Mr Obama and a handful of tech tycoons, after which he recalled that “The president is very smart, but he kept explaining to us reasons why things can't get done. It infuriates me.”

Now come the first signs that the frustration of tech titans with politics is spurring them to action. One is that a tech tycoon from “the other Washington” has bought the capital city's local newspaper. Although no one, perhaps not even the founder of Amazon himself, is sure why Jeff Bezos paid \$250m for the *Washington Post*, he does not seem to have done so just to pursue his industry's narrow interests: he has pledged to uphold the paper's tradition of fearless journalism. Another big statement of political intent was the launch in April of FWD.us, a campaign for immigration reform. Convened by Mark Zuckerberg, the founder of Facebook, its supporters are a who's who of tech, including Reid Hoffman, the founder of LinkedIn; Marissa Mayer, the boss of Yahoo; Eric Schmidt, the chairman of Google; and the most successful techie of them all, Bill Gates. Despite some early rows over tactics, the group has survived and is spending heavily in the hope of pulling off an improbable victory.

The few tech bosses with open party-political affiliations span pretty much the entire spectrum. Peter Thiel, a billionaire co-founder of PayPal and early investor in Facebook, is an out-

spoken libertarian who supported Ron Paul's presidential campaign. In contrast, Sheryl Sandberg, Facebook's chief operating officer, is a longtime Democrat who once worked in the Clinton Treasury Department; she is now being tipped, albeit as a long-shot, as the first techie president in the White House. But what these people have in common is more important than their differences. Most are likely to be socially liberal and economically pro-market, even if they have differing ideas on the right size for government. And, as people who have thrived on disruptive change, they are more likely than many other industrial leaders to be focused on the future and its challenges.

Some Silicon Valley-watchers are urging its tycoons to steer clear of politics, for fear of attracting unwelcome regulatory attention. They repeat Milton Friedman's warning to a group of tech leaders in 1999, that they would “rue the day when you called in the government” to curb Microsoft. A bigger risk is that Messrs Bezos, Zuckerberg et al merely follow the same well-worn path as previous generations of successful business bosses, from maverick entrepreneur to establishment power-broker, with a personal agenda that may or may not coincide with the good of the country. As yet the tech tycoons have produced no common manifesto for fixing Washington's many ills. But they share a pragmatic, can-do mentality that the capital desperately needs more of. They are widely admired for having made their fortunes through their creativity and hard work, which means that when they back a policy to fix, say, America's crippling health-care costs or its underperforming public schools, people will pay attention.

## Politics 2.0

FWD.us promises to be a force for creative disruption. It is “bringing to politics the hacker mentality of tech entrepreneurs—move fast, try to find new and innovative solutions to old problems,” says Joe Green, who is running the campaign. Controversially, this has included a deal with Republicans: support immigration reform, which may be unpopular with your voters, and FWD.us will pay for television ads in your constituency to remind them of your positions on other issues, which they do like. This has been dismissed as the worst kind of old-style Washington politics by some other tech leaders, including Elon Musk, the green-minded founder of SpaceX and co-founder of PayPal and Tesla Motors. He quit FWD.us when he heard his money was being used to buy advertisements promoting Republican support for the proposed Keystone XL oil pipeline. The debate rages on, but the immigration bill passed the Senate in June, and if it passes the House later this year the “hacker” tycoons will feel vindicated.

FWD.us's backers seem to have learned from the failure of their earlier efforts to lobby for a narrow immigration reform that would have simply let in more of the skilled foreign workers their companies need. Now, by campaigning for a larger reform that includes a path to citizenship for those working in America without permission, they have been able to broaden their support base; and the scent, albeit faint, of a possible victory is in the air.

If so, what next? Might the tech tycoons then apply this lesson to their future political activism, and seek to push politics forwards in a range of areas that need urgent attention, from education reform to trade liberalisation? It is too early to be sure, but if their first taste of life at Washington's top tables proves rewarding, the tech titans may not want to stop. ■





India in trouble

# The reckoning

MUMBAI

Why India is particularly vulnerable to the turbulence rattling emerging markets

ON THE morning of August 17th most of India's economic policymakers gathered in the prime minister's house in Delhi. They were there to launch an official economic history of 1981-97, a period which included the balance-of-payments crisis of 1991. The mood was tense. India, said Manmohan Singh, the prime minister, faced "very difficult circumstances". "Does history repeat itself?" asked Duvvuri Subbarao, the outgoing head of the Reserve Bank of India (RBI). "As if we learn nothing from one crisis to another?"

The day before Indian financial markets had had their rockiest session for many years. The rupee sank and stock-

markets tumbled. Money-market rates rose. The shares of banks thought to be either full of bad debts or short of deposit funding fell sharply. The sell-off had been made worse by new capital controls introduced on August 14th in response to incipient signs of capital flight. They reduce the amount Indian residents and firms can take out of the country. Foreign investors took fright, fearful that India might freeze their funds too, much as Malaysia did during its crisis in 1998.

India's authorities have since ruled that out. But markets keep sliding. On August 20th the RBI said it would intervene to try to calm bond yields. The rupee has dropped to over 64 to the dollar, an all-time low and 13% below its level three months ago. It is widely agreed the country is in its worst economic bind since 1991.

India is not being singled out. Since May, when the Federal Reserve first said it might slow the pace of its asset purchases, investors have begun adjusting to a world without ultra-cheap money. There has been a great withdrawal of funds from emerging markets, where most currencies have fallen by 5-15% against the dollar in the past three months. Bond yields have risen from Brazil to Thailand. Some governments have intervened. On July 11th Indonesia raised its benchmark interest rate to bolster its currency. On August 21st its president said he would soon announce further measures to ensure stability.

India, Asia's third-biggest economy, is

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more vulnerable than most, however. Economic news has disappointed for two years, with growth falling to 4-5%, half the rate seen during the 2003-08 boom. It may fall further. Consumer-price inflation remains stubborn at 10%. A drive by Palaniappan Chidambaram, the finance minister, to push through a package of reforms and free big industrial projects from red tape has not worked. An election is due by May 2014, adding to uncertainty.

India's dependence on foreign capital is also high and has risen sharply. The current-account deficit soared to almost 7% of GDP at the end of 2012, although it is expected to be 4-5% this year. External borrowing has not risen by much relative to GDP—the ratio stands at 21% today—but debt has become more short-term, and therefore riskier. Total financing needs (defined as the current-account deficit plus debt that needs rolling over) are \$250 billion over the next year. India's reserves are \$279 billion, giving a coverage ratio of 1.1 times. That has fallen sharply from over three times in 2007-08 (see chart 1) and

## Why they worry



Source: RBI  
\*Reserves as % of current-account balance plus short-term debt by residual maturity

## Margins for error

Reserve coverage\*, 2012, %



Sources: Institute of International Finance; RBI  
\*Reserves as % of current-account balance plus short-term debt by residual maturity †Q1 2013



► leaves India looking weaker than many of its peers (see chart 2 on prior page).

It is therefore vital that foreign equity investors stay put. They own perhaps \$200 billion of shares at current prices. They have sold only about \$3 billion since May, but if they head for the exit India would have no defence.

This is not a repeat of 1991. When India last had a crisis Boris Yeltsin was about to stand on a tank in Moscow and Nirvana was hitting the big time. Things have changed in financial terms, too. Back then India had a fixed exchange rate, which the state almost bankrupted itself trying to defend—it had to fly gold to the Bank of England in return for a loan. Today India has a floating exchange rate and a government with almost no foreign-currency debt. A slump in the currency poses no immediate threat to the government's solvency.

The pain will be felt in other ways. Private firms that owe most of India's foreign debt will be under intense strain, particularly if the rupee drops further. Some will go bust. Market interest rates will stay high, causing a liquidity squeeze. All this makes life even tougher for India's state-owned banks, which already have sour loans equivalent to 10-12% of their loan books. Inflation will rise. And the government's finances will be under strain as the cost of its subsidies on imported fuel gets bigger.

There is probably little the authorities can do to shore up the currency in the short term. The rupee is one of the world's most actively traded currencies and at least half the turnover is abroad. Privately, officials reckon the rupee's fair value, taking into account India's higher inflation and productivity over the past few years, is a little less than 60 per dollar, so the market has yet to overshoot wildly. Raghuram Rajan, the incoming governor of the RBI, is likely to take a hands-off approach.

That doesn't mean the government will—or should. On August 19th it banned the import through airports of duty-free flat-screen TVs, which Indians can often be seen heaving through check-in at Dubai. It may seek to raise duties further on gold imports, which Indians are addicted to in part because it is seen as a hedge against inflation. Gross gold imports were 3% of GDP last year, blowing a huge hole in the external finances. History suggests the higher taxes on gold imports are, the worse smuggling gets. But India imports 800-odd tonnes of bullion a year. That's a lot of gold to hide in suitcases.

The government will also try to persuade the Supreme Court to lift its ban on iron-ore exports, imposed after a series of corruption scams. At its peak this industry generated exports worth about 0.4% of GDP, although experts doubt that moth-balled mines can be ramped up fast. The government may also cut fuel subsidies. That would reduce demand for imported

fuel and help it hit a fiscal-deficit target of about 7% of GDP (including India's states).

The longer-term solution to the balance-of-payments problem may be to ramp up India's manufacturing sector, and thus its industrial exports. But that will take a big improvement in the business climate, not just a cheap currency. Despite the rupee's 27% tumble in the past three years there is scant sign of global manufacturers shifting production to India.

India's position could still get worse. But assuming things stabilise, when the official histories come to be written about 2013, what might they say? Most likely that the rupee's slump caused a severe shock to the economy that made a recovery in growth rates even harder. But perhaps, also, that it prompted a more serious debate about the policies that India needs to become less vulnerable to the whims of an unforgiving world. ■

#### Recruitment and connections

## Blood and money

NEW YORK

**American regulators investigate JPMorgan Chase's hiring in China**

OF ALL the investigations and lawsuits affecting financial firms in America, few have wider ramifications than a reported probe by the Securities and Exchange Commission (SEC) into whether JPMorgan Chase hired the children of senior Chinese officials in order to help the bank win business. One recruit was the son of an ex-banking regulator who is now the chairman of the China Everbright Group; another the daughter of a railway

official. (JPMorgan Chase has not been accused of wrongdoing and says it is co-operating with the investigation.)

The probe will cause amazement in China, a country in which the idea of *guanxi*—loosely translated, relationships—is ingrained. Familial connections are rife across government and commerce. The investigation will also cause consternation at Western firms hoping to do business in the country. Investment banks in Hong Kong privately concede that finding a “princeling” who is valuable for reasons other than their connections is the exception, not the rule. Although America's Foreign Corrupt Practices Act (FCPA) specifically targets the bribery of government officials, many of China's largest companies retain strong government ties so may come within its ambit. The SEC's scrutiny comes after the conviction last August of a Shanghai-based employee of Morgan Stanley for bribing a government official.

Some banks are now considering whether unpaid internships could be considered bribes by American regulators. Even an uncompensated spell at a prestigious firm has genuine value for the recipient, and could provide a useful contact for the bank. If hiring princelings becomes a potential red flag to investigators, banks will presumably have to demonstrate that people are being hired on their own merits. But how to define “merit”? For young employees, the universities they attended are often cited as proof of ability, but in many countries, not least America, entry to the best universities can also be a product of family relationships.

Chinese entities are not the only ones where these issues arise. American investigators are also interested in sovereign-wealth funds, another messy meld of government, commerce and money. Banks will think twice about hiring people with relatives at these funds.

Connections also count in the West, of course. Following initial reports of the SEC's investigation in the *New York Times*, a flood of stories have noted the jobs held in politically sensitive American firms by the sprogs of American politicians.

Even when offspring are not involved, the revolving door between the public and private sectors raises questions about why people are hired. JPMorgan Chase did not hire Tony Blair as a senior adviser for his knowledge of risk weights, after all. Mary Schapiro, a former head of the SEC, recently joined Promontory, a consultancy packed with ex-regulators used by banks to cope with regulation (she has said she will not lobby any government body in her new role). If it is unfair to cite these names, it is only because there are so many others. If the regulators genuinely fret about why firms make hiring decisions, they may want to extend their inquiries to Washington, DC, and New York as well. ■







## Offshore finance

## Trawling for business

### The Gambia looks to join a beleaguered club

**A**FTER Guernsey, the Gambia? The smallest country in mainland Africa, a sliver on the west coast with a population of 1.8m, is trying to turn itself into an offshore financial centre. Central to the strategy is a state-of-the-art online corporate registry, offering quick and cheap incorporation of the types of secretive companies and trusts that drive financial investigators to distraction.

It is a counter-intuitive move at a time when offshore hubs are under fire from big economies that accuse them of aiding tax evasion or worse. But the idea of becoming a tax haven "will always loom large" for small states with few other options for economic development, says Jason Sharman of Griffith University in Australia. The Gambia's economy is fairly open but still heavily dependent on tourism and peanuts.

With Britain cranking up pressure on its dependencies in the Caribbean and the English Channel, some of their customers will seek new homes offshore. And the overall market is proving resilient: after dipping in 2007-08, demand for offshore vehicles is back near pre-crisis levels in many jurisdictions, according to Appleby, a law firm.

The Gambia is not the only African country to take an interest. An attempt led by Barclays to develop Ghana into an offshore banking hub foundered in 2011 when the government, spooked by a warning from the OECD, declined to pass the required regulations. Tiny Anjouan,

an island in the Indian Ocean, dabbled briefly with shell banks. Kenya is working with TheCityUK, which helps London's financial district forge alliances, to set up an "International Financial Centre" (offshore centres' preferred label for their activities) in Nairobi. TheCityUK is also in talks with Dubai, Istanbul and Moscow. Liberia is a successful shipping flag of convenience, although its registry is run from Virginia.

The Gambian registry already has "several hundred" companies, says Charlotte Pawar, a manager. But it will need many thousands to be considered a success, a tall order in a bitterly competitive market. Although it is easy to copy other places' laws and product offerings (the Gambia's resemble those of Mauritius), gaining traction is a struggle without the right network of tax treaties and the backing of the big corporate-service providers that buy offshore firms in bulk from favoured jurisdictions, for resale to law firms and individuals.

These sponsors are hard to impress. Only four of the many jurisdictions that have tried to enter the market since the late 1980s have proved really successful: Mauritius, the Seychelles, Belize and Samoa. The largest mass incorporator, Hong Kong-based Offshore Incorporations Limited, apparently has no plans to start selling Gambian vehicles. It could be a while before financial shells displace those around the country's peanuts as a source of economic value.

## Recessions and public health

## Body of research

### The impact of downturns on physical and mental health

**E**XAM results capture pupils' achievements but not their enjoyment of learning. Life expectancy does not say anything about quality of life. Similarly, statistics on unemployment rates and wage levels do not tell the full story of recessions. Social scientists are increasingly interested in the effects of downturns on public health.

These effects are unclear. There is some evidence that physical health may actually improve in downturns. One paper\* by Christopher Ruhm, now of the University of Virginia, looking at American data from 1972 to 1991, suggests that a one-percentage-point increase in unemployment reduced mortality by 4.6 deaths per 100,000 people. "With shorter working hours, people spend more time at home with their families and may be less stressed from overwork," suggests Stephen Bezruchka of the University of Washington.

But there is also evidence that big economic crises are correlated with a deterioration in health. The Depression of the 1930s was associated with increases in malnutrition because people had less money to spend on food. In 1928, 14% of adults over 20 in Philadelphia were deemed to be suffering from malnutrition. By 1932 the figure had risen to 26%.

Social scientists are now scouring public-health data for clues about the impact of the recent crisis. A National Bureau of Economic Research paper found that in America there has been a 4.8% increase in the likelihood of self-reported poor health for every one-percentage-point drop in state employment rates.

Some diseases have become more prevalent. In Greece incidence of HIV has risen, with a 50% increase in new infections in 2011 compared with 2010. The jump has been concentrated among injecting drug-users, and has been linked to large cuts to health services. Needle-exchange projects have been pared back, making transmission more likely.

Mental health does appear to suffer during downturns. Mr Ruhm's work found that suicide rates rose with unemployment. The East Asian crisis of the late 1990s was marked by a spate of suicides: in Hong Kong, Japan and South Korea the crisis was responsible for 10,400 more suicides in 1998 than might normally have been expected. Research on Spain indicates that in ►►

\* Studies cited in this article can be found at [www.economist.com/health13](http://www.economist.com/health13)



▶ the current crisis the suicide rate has increased by 8%. The rise is concentrated among people who are most likely to have lost their job.

Working out how health is affected by recessions is made harder by time lags. Job insecurity may lead people to the bottle, which will have repercussions later. A recent paper co-authored by Paul Frijters at the University of Queensland found that the latest recessionary period was associated with an almost 20% increase in alcoholism-related Google searches in America. Higher alcohol abuse today will worsen health outcomes over time.

Obesity is another slow-burning health problem. Higher unemployment leads to lower incomes, which can make it more difficult for people to eat well. Research from the University of Nebraska finds that "financial stress"—not being able to pay for essentials such as food or rent—is a strong predictor of obesity. In Australia the risk of being obese in 2010 was 20% higher among individuals who experienced financial stress in 2008 and 2009 than among those who did not experience it in either year. Policymakers should keep an eye on this growing body of research for guidance on how to marshal health-care resources when economies fall ill. ■

#### Asset-management companies in China

## Lipstick on a pig

SHANGHAI

**China is still dealing with the mess left by previous bank bail-outs**

NEWS surfaced this week that Cinda, an asset-management company (AMC) created during China's last round of banking bail-outs, is talking to bankers about a stockmarket flotation. That raises an intriguing question: how would the Chinese government handle its next banking crisis? If experience is a guide, it will be through a combination of enormous injections of public money, the creation of complicated structures and the obfuscation of data.

In the 1990s the government shut down many inefficient state-owned enterprises (SOEs). That forced banks to acknowledge loans to those entities as duds. Non-performing loan (NPL) ratios soared, so officials engineered an elaborate bail-out. Central Huijin, an SOE capitalised by the central bank and finance ministry, put money into the banks. On one estimate, these equity infusions topped \$150 billion.

NPLs were hived off into four new AMCs: Huarong, China Orient, China Great Wall and Cinda. From 1999 to 2004 loans worth over 2 trillion yuan (\$242 billion) were transferred. Though mostly bad,

the loans were usually sold at full face value. They were paid for with ten-year bonds, backed by the finance ministry, that the AMCs issued to the big state-owned banks. But since most NPLs failed to recover in that time, these bonds were extended another decade. In short, the bail-out is still going on.

What the AMCs have done with their assets is unclear, as they have not released proper accounts. Some NPLs have been sold but reportedly at only 20% of face value. To deal with the resulting cash crunch, Cinda sold bonds to the finance ministry. Anne Stevenson-Yang of J Capital, a research firm, observes that these bonds have since been wiped clean from its balance-sheet without any explanation for where they went: "The AMCs seem to be virtual holding-tanks where the debt doesn't stay and doesn't depart either." Some think they may be insolvent.

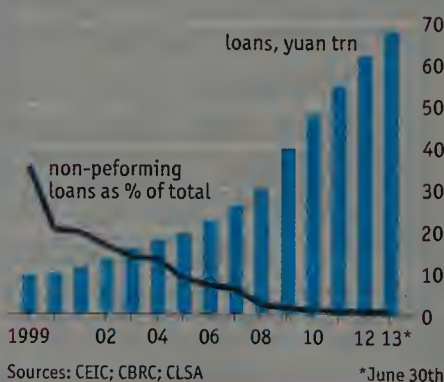
That hasn't stopped the AMCs expanding into other areas. They have gobbled up small banks and expanded into fund management, broking, commodities trading and insurance. Cynics speculate that all this has been done to give an illusion of rounded prosperity, perhaps as a prelude to a wave of public offerings.

In preparation for Cinda's flotation on the Hong Kong exchange, the government poured 15 billion yuan into the firm in 2010 as it became a joint-stock company. Another 10 billion yuan was invested in it last year by strategic investors (including Standard Chartered, UBS and Citic Capital, a private-equity firm). Huarong is also rumoured to be seeking strategic investors, ahead of a possible listing next year.

Why now? With loans soaring and bad debts likely to follow suit (see chart), Chinese officials realise that the next banking crisis may be near. They may well be hoping to lure in fresh investors, to draw a line under previous bail-outs and raise capital for new ones. Huarong and Cinda now claim to make profits, but given their murky accounts, that is hard to verify. A headline in the *South China Morning Post* sounded this warning: "China's insolvent toxic-waste dump Cinda for sale". ■

#### So all's well, then?

Chinese banks:



#### Private equity

## Tax attack

**Leveraged buy-outs face legal scrutiny**

TAX planners at private-equity firms are having an unusually busy summer. A fiscal ruling in Sweden and a court case in America are threatening to upend the arrangements that buy-out firms use to minimise their tax bills.

Both cases relate to a tax loophole used by private-equity firms in America and much of Europe. Under "carried interest" rules, buy-out executives pay (relatively low) capital-gains taxes on profits made from buying and selling companies, in the same way investors or entrepreneurs do. This is odd, given that the money wagered on private-equity deals comes overwhelmingly from outside investors, not the executives themselves. It would make more sense for these profits to be taxed like salaries, or bankers' bonuses, at the (higher) income-tax rate.

That is exactly what Sweden's tax administration has decided. In a ruling on August 20th it demanded SKr647m (\$99m) of back taxes from EQT, a local private-equity fund, and its executives. The amount covers the difference between the 25% capital-gains rate and the 57% income tax for 2007-09, plus interest and penalties. EQT is not alone: dozens of other executives at other firms have been handed multi-million-kronor bills as a result of the tax authorities' change of heart. The potentially impoverished bosses say they are confident courts will find in their favour on appeal.

The American case, decided on July 24th, chips away at carried interest from another angle. An appeals court in Boston ruled that Sun Capital, a private-equity fund that specialises in turning around distressed companies, is liable for some pension obligations of a firm it bought in 2006, and which subsequently went bust.

The case is limited to pensions (and is being contested by Sun Capital) but the precedent could have a wider tax impact, says Jon Zorn of Ropes & Gray, a law firm. The core of the ruling blows away a legal fiction that private-equity funds are passive investors who do not actively control the companies they buy. That premise is also used to justify putting profits into the lower tax bracket.

Executives in Sweden and America complain about the uncertainty created by the cases. They have a point. It would be better to make clear that private-equity profits should be taxed as income, and carried interest done away with.



## European bank funding

## A long, dry summer

## Smaller banks on Europe's periphery are still struggling to find funding

IN TIMES of drought the great migrating herds on Africa's plains splinter, the strong pulling ahead and the weak falling behind. So it is for Europe's banking system. Over the past few years a cross-border banking market has unravelled into a collection of national ones. There has been a massive \$2.2 trillion reduction in bank lending across borders within the euro area since 2008. Borrowing costs in peripheral countries have shot up, driven largely by an increase in the interest rates that countries such as Italy and Spain have to pay. The divergence in borrowing costs between German and Spanish firms is close to 1.5 percentage points, compared with just a few basis points (bps), or hundredths of a percentage point, two years ago.

Just as the pack of nations is stringing out, so there is dispersion within Europe's peripheral countries. Gaps have emerged between very big and diversified banks such as Santander, BBVA, Intesa Sanpaolo and UniCredit, which are able to fund themselves in wholesale markets and from deposits, and their smaller brethren.

The cost of buying default insurance on the debt of Italian banks, a (somewhat imperfect) proxy for their borrowing costs, stands at about 330 bps on average, or \$330,000 to protect \$10m of debt for five years. Yet this hides wide variation. The cost of buying credit-default swaps (CDS) on the debt of Intesa, Italy's biggest bank by domestic market share, is 295 bps while that of insuring debt issued by Monte dei Paschi di Siena, a smaller and admittedly troubled rival, is 708 bps. A similar if less

extreme divergence is evident in Spain. The CDS on Santander, Spain's biggest bank, is 260 bps while that on Bankinter, a feisty rival, is 329 bps.

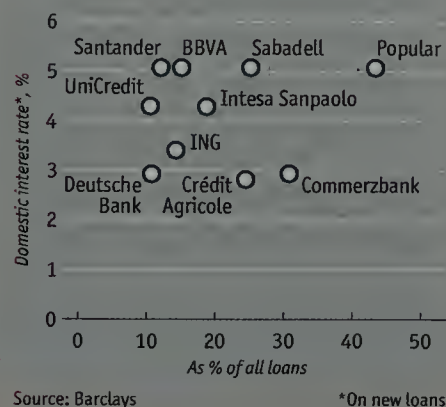
Two things determine banks' funding costs apart from the country in which they are based. One seems to be how well capitalised they are. A recent IMF staff paper found a firm link between the balance-sheet strength of Italian banks and their borrowing costs. The other is size and diversification. Very banks that are deemed to be too big to fail seem to have the confidence of investors in bond markets. So too do those banks, such as Santander or UniCredit, whose wide spread of businesses can help them weather downturns in their home markets. Smaller banks tend to have concentrated assets and are seen as vulnerable to shocks. This dispersion between big and small is true in most places, but seems to be particularly acute in countries hit by the euro crisis.

Differences in funding costs are also found in the market for retail deposits, with the biggest national banks able to increase their share of the market at the expense of smaller rivals. Over the past year Santander's Spanish deposits have increased by 19%, BBVA's by 27%. In contrast deposits at Bankia, a bailed-out Spanish bank, have fallen by more than a quarter over the past 18 months.

A loss of deposits drives up banks' funding costs, since deposits are often cheaper than borrowing on capital markets; it also increases their loan-to-deposit ratio, a marker of vulnerability to droughts

## Smaller banks, smaller businesses

European banks' loans to small and medium-sized enterprises, March 2013



in wholesale markets. This creates the risk of a vicious circle. Straggling banks have to pay more to get funding, which in turn reduces their profitability and hurts their ability to generate capital and set aside provisions. That limits their access to funding, forcing them to cut their balance-sheets.

A recent proposal by the European Commission to "bail in" the debt of failed banks is likely to make investors even more skittish about buying the bonds of weaker banks. The botched bail-out of Cyprus in March may also frighten savers into staying away from smaller or feeble banks for fear their deposits are at risk.

The travails of smaller European banks in peripheral countries are likely to have two big consequences. The first is on the supply of credit to small and medium-sized enterprises (SMEs), many of which rely on small regional lenders rather than big national ones. A far higher proportion of total lending at banks such as Spain's Sabadell and Popular is to SMEs than it is at big banks such as UniCredit and Santander (see chart).

Many small European banks are unable to raise capital because they are mutuals or co-operative banks, and thus cannot issue equity in order to meet new regulatory targets; others will simply struggle to persuade investors to stump up. They are likely to cut their balance-sheets instead. Some of the bigger banks are promising to lend more to fill the gap that will leave, but it takes time to transfer borrowers from one bank to another, especially if their risk standards differ. Big diversified banks may also be reluctant to increase their exposure to their troubled home markets.

The second consequence is likely to be further consolidation of banking markets. Huw van Steenis, an analyst at Morgan Stanley, points out that Spain had 53 banks and *cajas* (savings banks) in 2009. By the end of last year it had a dozen. A similar consolidation may follow in Italy, which has more than 700 banks. Like the animals on the African plains, those that fall behind will be picked off by predators. ■



Consolidation process nears conclusion



# Free exchange | A new toolkit

## Central banks must get used to pulling a new set of policy levers

IN THE late 1990s and early 2000s central bankers in America and Europe had it easy. By raising or lowering the official interest rate, they could stimulate or dampen the economy at will. Rate changes would ripple fairly predictably through the banking system and bond markets, thereby affecting the price of borrowing across the economy. But following the 2008 crash, central banks were forced to pin their official rates to the floor. After five years of holding them near zero, monetary policymakers have become ever more reliant on “unconventional” measures.

Two policy tools in particular have become important. The first is making large-scale asset purchases. Since 2009 the Federal Reserve has been buying financial assets including government and corporate debt and pools of household mortgages. Over the same period the Bank of England has purchased £375 billion (\$585 billion) of government bonds. The aim in both cases is to push prices up, thereby pushing down the yields, or interest rates, on these assets. This cuts the costs of finance across the economy.

If asset purchases target the cost of borrowing now, the second tool targets the rates that people expect to pay and receive in the future. In 2008 the Federal Reserve indicated that its policy rate, then below 0.2%, would be low “for some time”. In 2011 it was more explicit, saying that low rates would be “warranted” until mid-2013. In 2012 it went further still, committing to keep rates low until unemployment, currently 7.6%, falls below 6.5%.

The idea behind such “forward guidance”, a tactic since adopted by both the Bank of England and the European Central Bank (ECB), is that anyone considering a loan needs to take into account both the rate of interest today and the likely rates in the future. If central banks can make a credible commitment to keep rates in the future down, the expected payment on floating-rate mortgages and car loans will drop. Even those borrowing at fixed rates will be able to save money by refinancing at lower costs. Consumption and investment will be more attractive as a result.

### Pesky foreigners

But both these tools have their problems. Start with asset purchases. At a combined \$9.7 trillion, central banks in America, Britain, Japan and the euro area have big balance-sheets. But other investors have more heft in the markets central banks are trying to influence. Close to \$5.6 trillion of Treasury securities are held by foreign investors, around half the supply. China and Japan together hold more than the Federal Reserve (see left-hand chart). In Britain a third of the £1.4 trillion debt stock is held by foreigners. They are active investors, buying over £250 billion since 2008.

These foreign purchases and sales can influence market rates. In the run-up to the crisis the Fed lifted its official rate, but yields on government bonds and mortgages did not rise by anything like as much (see right-hand chart). By tracking foreign capital flows, and controlling for other factors like lower inflation expectations, researchers have pinned part of this mismatch on the decisions of foreign investors. The consensus of a range of papers\* is that the asset-allocation decisions of foreigners can raise or lower rates by up to 100 basis points. That can be enough to negate the actions of central banks. Foreign investors have sold \$45 billion of Treasuries in 2013, nudging rates up when the Fed would prefer them to go down.

Influencing expectations is just as tricky. The difficulty is what Finn Kydland and Edward Prescott, in a 1977 paper, called the “time consistency” problem. The idea is that commitments about what central banks will do in future lack credibility if people think that policymakers will go back on their promises. The Bank of England has left itself lots of wiggle-room to raise rates if circumstances change, for example. Hollow pledges do not change the expectations of investors and shoppers.

### Two tools are better than one

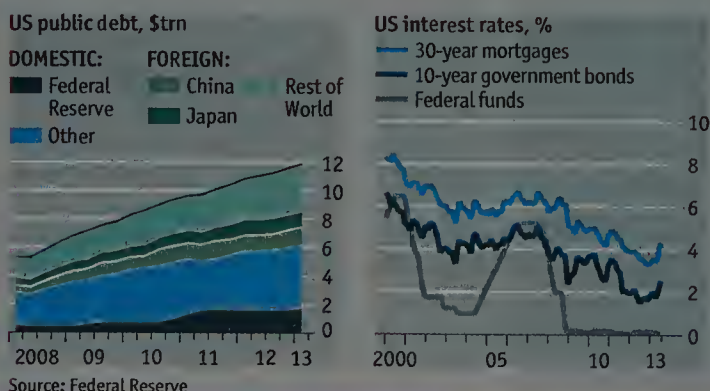
In both Britain and America interest rates are now rising—up by over 100 basis points since the start of May, despite asset purchases and interest-rate commitments. That suggests the new tools need to be sharpened. Stronger commitments would help. In a 2012 paper Michael Woodford of Columbia University argued that central bankers can use their reputations to get over the time-consistency problem. They should make an unconditional commitment to keep rates low until some objective threshold—an unemployment rate, say, or nominal GDP level—is hit. The embarrassment of having to backtrack would tie their hands, changing public expectations and triggering spending.

Another way to get more punch is to use the two new tools together, twinning asset purchases with strong forward guidance. In a 2013 paper Vasco Cúrdia and Andrea Ferrero of the Federal Reserve Bank of San Francisco investigated the impact of the \$600 billion of asset purchases undertaken by the Fed in 2010-11. The researchers estimate that the policy, which was accompanied by forward guidance, added 0.13 percentage points to America's growth rate. In normal times a speedier expansion is itself a signal that central banks are more likely to raise rates. This mix—lower rates today, but expectations of higher ones tomorrow—dampens the effect of asset purchases. Without the promise that rates would be held low into the future, the second round of quantitative easing (“QE2”) would have lost two-thirds of its potency, the researchers reckon, adding just 0.04 points to growth.

Perhaps the best example of this combination of strong words and deeds comes from the ECB. In July 2012 Mario Draghi, its president, announced it would do “whatever it takes” to ensure that the euro area survived. His pledge was backed by a new scheme to buy up debt issued by troubled governments. The promise was enough: interest rates in Spain fell by 250 basis points in the next year. And the commitment is still working, despite the fact that no debt has been bought yet. Central bankers may inhabit a new world, but they can still be as influential. ■

\* Studies cited in this article can be found at [www.economist.com/cbanks13](http://www.economist.com/cbanks13)

### Influence flows away







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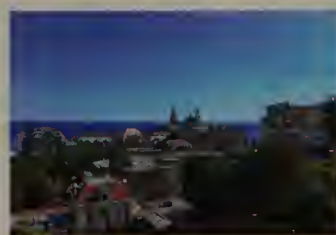
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### Dark energy

## A problem of cosmic proportions

**Three experiments are starting to study dark energy, the most abundant stuff in the universe. But a theory has just been published purporting to show it does not exist**

**I**N THE 1920s astronomers realised that the universe was running away from them. The farther off a galaxy was, the faster it retreated. Logically, this implied everything had once been in one place. That discovery, which led to the Big Bang theory, was the start of modern cosmology.

In 1998, however, a new generation of astronomers discovered that not only is the universe expanding, it is doing so at an ever faster clip. No one knows what is causing this accelerating expansion, but whatever it is has been given a name. It is known as dark energy, and even though its nature is mysterious, its effect is such that its quantity can be calculated. As far as can be determined, it makes up two-thirds of the mass (and therefore,  $E$  being equal to  $mc^2$ , two-thirds of the energy) in the universe. It is thus, literally, a big deal. If you do not understand dark energy, you cannot truly understand reality.

Cosmologists are therefore keen to lighten their darkness about dark energy, and three new experiments—two based in Chile and the third in Hawaii—should help them do so. These experiments will look back almost to the beginning of the universe, and will measure the relationships between galaxies, and clusters of galaxies, in unprecedented detail. When they are done, though the nature of dark energy may remain unresolved, it should at least be clearer.

If, that is, it actually exists. For a core of cosmological refuseniks still do not believe in it. They do not deny the observations that led others to hypothesise dark energy, but they do deny the conclusion. For them, then, these experiments provide an opportunity to test alternative theories.

### Darkness and dawn

The most advanced of the new experiments is the five-tonne, 570-megapixel Dark Energy Camera, which was installed last year at the Cerro Tololo Inter-American Observatory in Chile, 2,200 metres (7,200 feet) above sea level in the Atacama Desert. It is expected to open for business in a few weeks' time, taking 400 one-gigabyte pictures of the sky each night, for 525 nights over five years.

This photographic marathon is part of the Dark Energy Survey (DES), a project led by Joshua Frieman of the University of Chicago. Dr Frieman's plan is to scan an eighth of the sky, examining 100,000 galaxy clusters as he does so and measuring the distances to 300m individual galaxies within those clusters.

The reason for all this effort is that tracing the way the sizes and shapes of galactic clusters change over time allows each round of the battle between gravity and dark energy to be studied in detail. Gravity, which tends to slow down the expansion of the universe, causes clusters to become

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more compact. Dark energy, which tends to speed universal expansion up, causes clusters to spread out. The rate of contraction or expansion of clusters shows the relative strengths of the two forces. Dr Frieman and his colleagues cannot follow the changes in any given cluster since they see only a snapshot of its history. But looking at the differences between lots of clusters of various ages is the next best thing.

Previous observations have suggested that for more than half of the universe's 13.7-billion-year life, gravity had the upper hand. Only about 6 billion years ago did dark energy overtake it. The DES hopes in particular to study the transitional period, by peering back as far as 10 billion years by the simple expedient of looking at clusters up to 10 billion light-years away.

The second of the new experiments, the Subaru Measurement of Images and Redshifts (SUMIRE), led by Hitoshi Murayama of the Kavli Institute for the Physics and Mathematics of the Universe, in Tokyo, is based on a mountain top in Hawaii. It will start collecting data next year, in a manner similar to the Dark Energy Camera, but better. Though it will look at only a tenth of the sky, rather than an eighth, it can see farther—13 billion light-years, rather than 10 billion. It also has more bells and whistles than the Dark Energy Camera; specifically, it has an integral spectrograph, for working out redshifts.

Redshifts are one of astronomy's most important sources of information. They tell you how far away a galaxy is. They are caused by the Doppler effect, a phenomenon familiar on Earth as the change in pitch of a police-car or ambulance siren as the vehicle approaches and then recedes. Light, too, is subject to Doppler shifts, and the light from a receding object is thus redder (ie, of longer wavelength) than it other- ►►



wise would be. The faster the object is moving away, the redder it is. It was this that allowed those 1920s astronomers, led by Edwin Hubble, to work out that the universe is expanding. The Dark Energy Camera, which lacks a spectrograph, has to rely on other telescopes which do have them to make its redshift measurements for it. Having an integral spectrograph will thus give SUMIRE an advantage.

The third experiment, ACTPol (Atacama Cosmology Telescope Polarisation sensitive receiver), run by Lyman Page of Princeton University, is rather different. Instead of looking at light from galaxies, it will study microwaves from the cosmic microwave background (CMB). This was created around 380,000 years after the Big Bang, and thus preserves an imprint of what the early universe looked like.

ACTPol, too, is in Chile, on the peak of a mountain called Cerro Toco. Tests began on July 19th. Its purpose is to look at the CMB's polarisation, any part of which will have been distorted in meaningful ways by the microwaves' passage through intervening galaxies from their creation to their arrival on Earth. And from that, using a lot of statistical jiggery-pokery, a third estimate of the yo-yo effect of gravity and dark matter on galactic clusters should emerge.

If these three experiments work, and agree with one another, it will be a big step forward in understanding how the universe has evolved from an object smaller than an electron into the vastness seen today. Theoreticians will be able to plug the new data into their models of dark energy, and see what comes out. But others will be able to use the data too. And they may come to different conclusions.

### Crazy enough to be correct?

Even as astronomers vie to explain the mystery of the expanding universe, some theorists are trying to explain it away. The most recent such attempt has just been published by Christof Wetterich, of the University of Heidelberg, in Germany. Not only does he not believe in dark energy, he does not believe the universe is expanding at all.

That, in the context of modern cosmology, is a pretty grave heresy. But Dr Wetterich's latest paper, published on *arXiv*, an online repository, attempts to back it up.

In Dr Wetterich's picture of the cosmos the redshift others attribute to expansion is, rather, the result of the universe putting on weight. If atoms weighed less in the past, he reasons, the light they emitted then would, in keeping with the laws of quantum mechanics, have been less energetic than the light they emit now. Since less energetic light has a longer wavelength, astronomers looking at it today would perceive it to be redshifted.

At first blush this sounds nuts. The idea that mass is constant is drilled into every

budding high-school physicist. Abandoning it would hurt. But in exchange, Dr Wetterich's proposal deals neatly with a big niggle in the Big Bang theory, namely coping with the point of infinite density at the beginning, called a singularity, which orthodox theories cannot explain.

Dr Wetterich's model does not—yet—explain the shifts in the shapes of galactic clusters that the Dark Energy Camera, SUMIRE and ACTPol are seeking to clarify. But perhaps, one day, it could. Dr Wetterich is a well-respected physicist and his maths are not obviously wrong. Moreover, his theory does allow for a short period of rapid expansion, known as inflation, whose traces have already been seen in the CMB. Dr Wetterich, however, thinks this inflation did not happen just after the beginning of the universe (the consensus view), for he believes the universe had no beginning. Instead, a small static universe which had always existed turned into a large stat-

ic one that always will exist—getting heavier and heavier as it does so. There was thus no singularity.

Probably, this theory is wrong. As Cliff Burgess of Perimeter Institute, a Canadian theoretical-physics centre, puts it, "The dark energy business very easily degenerates into something like a crowd of people who are each claiming to be Napoleon while asserting that all the other pretenders are clearly nutty." But theories last only as long as they do not conflict with the data, and when the new experiments have finished there will be a lot more data for them to conflict with, and thus reveal who the real Napoleon actually is. Perhaps, therefore, the last word should go to Niels Bohr, one of the founders of quantum theory. He once said to a colleague, Wolfgang Pauli, "We are all agreed that your theory is crazy. The question that divides us is whether it is crazy enough to have a chance of being correct." ■



### Judging music competitions

## The sound of silence

### Top musicians are judged as much for their movements as for their melodies

SOME music has always been about the performance. Watching a rock band live, for example, is not just a matter of appreciating the quality of the sound. What the musicians get up to on stage is almost as important. But you might think that classical music would be immune from such distractions—doubly so when a performance is being judged as part of a competition. However, a study by Chia-Jung Tsay, a concert pianist who is also a researcher at University College, London, suggests that

even judges awarding prizes can be swayed by what they see as well as what they hear.

Dr Tsay's study, just published in the *Proceedings of the National Academy of Sciences*, employed over 1,000 volunteers (half novices and half experts) to evaluate the performances of candidates in ten prestigious music competitions, to see if they agreed with the judges' decisions. Each volunteer assessed 30 performances—the top three from each competi- ►►



tion. The catch was that only a third of volunteers were shown the performances accompanied by the soundtrack. The other two-thirds got either to see each performance or to hear it, but not both.

Novices who saw and heard the whole thing, or merely heard it, did little better than chance at working out who had won—guessing right slightly more than a third of the time. Those who only saw it, however, did much better. They agreed with the actual decision almost half the time. Even more intriguingly the experts, who one might think would be trained to screen out histrionic flummery on the part of performers and concentrate entirely on the sound of the music itself, did worse than the novices when they could hear the performance, whether or not they could see it as well: they guessed right slightly under a third of the time. When they could see but not hear it, they did precisely as well as the novices, agreeing with the

judges just under half the time.

Still worse, for those who believe competitions truly pick the best musician, when both novice and expert participants watched silent videos that showed only the performers' outlines (as illustrated at the top of the article), they still got it right just under half the time. What they seemed to be picking up on were gestures that they thought conveyed passion. It was these that gave a performer his or her edge.

One moral of this story, then, is that music competitions really are a bit of a lottery. If even experts cannot pick the winner from the top three when they can see and hear the performances, it suggests that real judges in such competitions might, once they have winnowed out the no-hopers, just as well toss a coin to decide who is actually top. The other lesson, given that this is never really going to happen, is that competitors should brush up on their stage skills as well as their musical ones. ■

where it was attached to its skull is flanked by the sort of crest associated with the flat horns of the ice-age woolly rhino. These rhinos probably used their horns to scrape away snow that covered their food.

At the moment the Zanda basin is 4,000 metres above sea level. But fossil snails found near the rhino suggest that when it was alive the area was as much as 5,500 metres up. It must therefore have subsided after having been thrown up during the collision of India with Asia, which created Tibet. Such altitude would have produced just the sort of selective pressure needed for woolly coats, flat horns and other adaptations to the cold to evolve. This done, the ice ages would have made the rest of the world a friendly place.

Rhinos are an ancient lineage. The woolly rhino's closest living ancestor, as proved by looking at the genes of frozen specimens, is the Sumatran rhino. The line these two belong to split from those leading to the other four modern rhino species some 26m years ago, when Tibet was lower than it is now, so the hypothesis of Dr Wang and Dr Deng is plausible. And if it were true for rhinos, it might be true for other ice-age species.

No ancestral mammoth has yet been found in Tibet, though elephants were abundant in both southern Asia and much of China until people arrived (they are rare in both now). But Dr Wang and Dr Deng have made one potentially pertinent discovery. When they compared the DNA of Tibetan yaks with that of American bison, they found the two species are closely related. Bison are the largest surviving representatives of the ice-age megafauna. Perhaps these icons of the old American West also started life half a world away in the fastnesses of Tibet. ■

## Evolution

# How the rhino got his woolly

CHENGDU

**Ice-age giants like the woolly rhino may originally have been Tibetan**

NOWADAYS, elephants and rhinoceroses are tropical species. Until recently, though, they wandered as far north as the Arctic Ocean. The last woolly rhino died about 8,000 years ago. Woolly mammoths lasted another 3,500 years, succumbing only when human beings arrived in their Siberian refuges. What no one has known, however, is when and where these animals evolved the eponymous coats that allowed them to range in such high latitudes. The best guess was that they grew them gradually, as ice began to grip the world 2.6m years ago.

But in the case of the woolly rhino Xiaoming Wang, of the Natural History Museum of Los Angeles County, and Deng Tao, of the Institute of Vertebrate Palaeontology and Palaeoanthropology in Beijing, disagree. They think woolly rhinos arrived in the ice-age tundra fully formed, and suspect other beasts may have done so, too. In their view it was not global climate change that forced rhinos to sport shaggy coats, but rather a trip on a geological elevator. They believe the change happened when the beasts were uplifted by plate tectonics to become inhabitants of the world's penthouse suite: the plateau of Tibet.

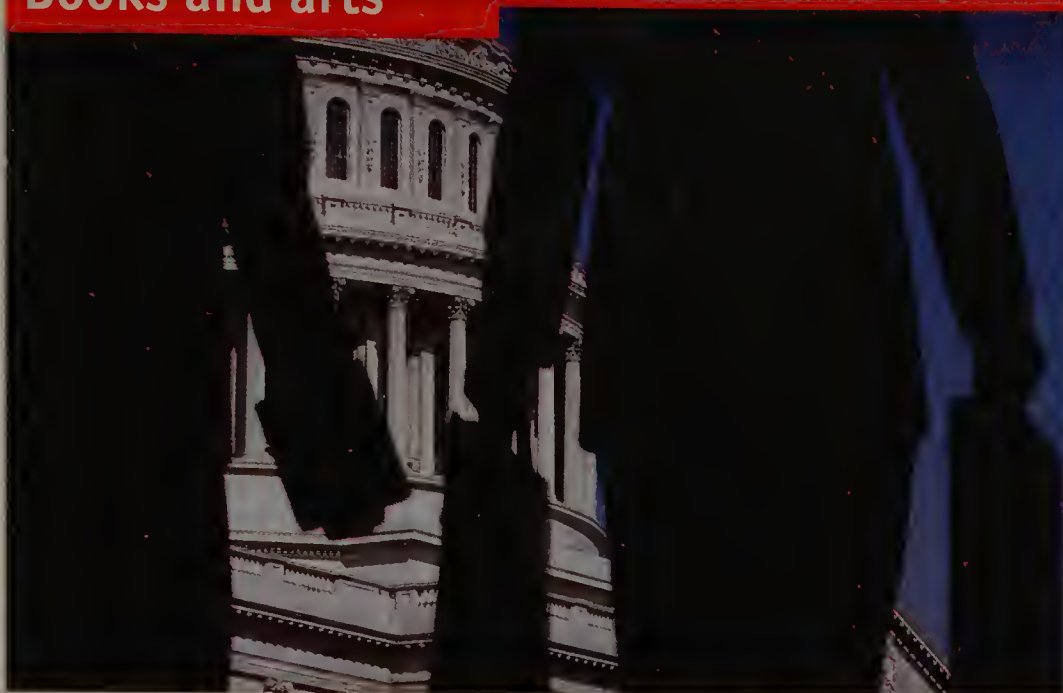
The two researchers' evidence, as they explained to a joint meeting of the Geological Societies of China and America, held recently in Chengdu, the capital of Sichuan province, is the partial skeleton (a skull, a

jawbone and a couple of vertebrae) of a primitive species of woolly rhinoceros. This specimen, found in the Zanda Basin of south-western Tibet, dates from 3.7m years ago—well before the ice ages got going. It is smaller than an ice-age woolly rhino, but recognisably similar. In particular, though its horn has been lost, the place



A visitor from the roof of the world





## American politics

## Something rotten

## The hustlers and parasites who make up Washington's political establishment

**“THIS TOWN”** may be the most pitiless examination of America's permanent political class—aka “the gang of 500” or “the Beltway establishment”—that has ever been conducted. With a wry touch, Mark Leibovich, a journalist with the *New York Times Magazine*, chronicles the tawdry work of Washington's insiders and aspiring insiders. He refrains from presenting big thoughts about what is wrong with American politics and how it might be fixed. But it is impossible to read this book without concluding that something must be done.

Washington has always had a permanent establishment of politicians, lobbyists and journalists. But this class has exploded in size in recent decades, and has become more introspective and self-serving. The news media have produced a hydra of talking heads who are forever yelling at each other (debate) or pontificating about who is up and who is down (analysis). The lobbying industry has spent billions greasing the revolving door: in 2009 alone, special interests spent \$3.47 billion lobbying the federal government. In 1974 3% of retiring policymakers became lobbyists. Now 50% of senators and 42% of congressmen do. And the internet has enabled a horde of young journalists to eke out a living peddling tittle-tattle to Politico, which provides constant caffeinated coverage of the city, or to dozens of other websites that trade in political gossip.

The huge expansion of “this town” has coincided with the merging of politics and

**This Town: Two Parties and a Funeral—Plus, Plenty of Valet Parking!—in America's Gilded Capital.**  
By Mark Leibovich. *Blue Rider Press*; 400 pages; \$27.95 and £17.99

celebrity culture. People in Washington now build their brands with a relentlessness that rivals Coca-Cola. And the city's media dote on political operatives as if they are film stars. This fashion reached its apogee when Peter Orszag, Barack Obama's first director of the Office of Management and Budget, became a Beltway sex symbol. A blog site called Orszagasm.com was soon devoted to chronicling the affairs of this unlikely Casanova with a calculator, who sported not one but two BlackBerry holsters.

While often amusing, this book is a story of disappointment. It opens with a “change election” that was supposed to sweep aside the old order and create a politics fit for the 21st century. Mr Obama even imposed a ban on lobbyists. But the Washington machine soon took over. When Mr Obama was an Illinois senator with big ideas and a silver tongue, his staff decried the media as “jackals”. But once in the capital, these same figures cashed in on their public service by getting lucrative jobs as lobbyists, bankers or talking heads. David Plouffe, an adviser to the president, joined the jackals at Bloomberg television. Mr Orszag went to Citigroup. Meanwhile, the city's politicos grew richer while the rest of

the country was mired in recession. Washington now has a higher income per person than Silicon Valley.

Mr Leibovich provides a succession of deft sketches. Bob Rubin, Bill Clinton's first treasury secretary and a man who has made hundreds of millions on Wall Street, is “the undisputed king of the Ritz-Carlton Democrats”. Harry Reid, a senator for Nevada, could “pass for an oddball taxidermist who keeps a closet full of stuffed pigeons”. The slimmed Mr Clinton looks like “a skinny older guy wearing an oversize rubber Bill Clinton head”.

Then there are the parasites who feed off the parasites. The most prominent at the moment seems to be a woman called Tammy Haddad who spends her life throwing parties for the powerful and then basking in their reflected glory (“My job is to be around the most successful people, the most up-and-coming people, and the people who have impact”). She films interviews with her guests on her “Tam Cam”. Not content with throwing a book party for Arianna Huffington's “Third World America” she provided embroidered “Third World America” pillows as well.

Mr Leibovich observes Washington's failings brilliantly. He eschews the bias that mars so many political tirades, concluding that the city's failings are thoroughly bipartisan. He seems to have been everywhere and interviewed everyone. But it is nevertheless impossible to finish this book without feeling a bit cheated. “This Town” is more a symptom of the problems that it describes than a cure. The news that Mr Leibovich was about to publish this book created a firestorm of debate in the city about how bad the place really is (which Mr Leibovich lovingly chronicles in his epilogue). The appearance of the book has sparked a similar conflagration. Washington's narcissism has reached the point at which it is narcissistic even about its own ghastliness. ■

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## The science of politics

## From the gut

**Our Political Nature: The Evolutionary Origins of What Divides Us.** By Avi Tuschman. Prometheus; 486 pages; \$24.95

SAGES from philosophers to pollsters have long struggled to explain what makes voters lean left or right. As political animals, people are unpredictable. Why do conservative poor people vote against their economic interests? Why do privileged young intellectuals stump for the welfare state?

Some political scientists like to believe political preferences are rooted in "rational choices". Sociologists claim that political inclinations are informed by a person's home, institutions and social groups. Now it is time for the biologists and psychologists to weigh in, argues Avi Tuschman in his new book "Our Political Nature". An anthropologist by training, he claims that evolutionary instincts shape political preferences—and inform partisanship—far

more than income or what people watch on television.

With an arsenal of data and studies, Mr Tuschman views political divisions through three main personality traits: tribalism, tolerance for inequality and views of human nature. These qualities are all quantifiable and rooted in biology, he argues. Xenophobia, for example, is a result of breeding preferences. In cases where infectious diseases are common—often in hotter regions—people are more sexually conservative and instinctively avoid partners from different ethnic groups.

Parenting style informs the views of the next generation, Mr Tuschman claims. He points to studies that show that leftists come from less disciplined and more egalitarian families in which children are encouraged to challenge adults. Younger siblings often swing further left than older ones, often because big brothers and sisters are forced to be more responsible, which encourages them to identify with parental authority—and perhaps authority in general.

Views of income inequality are divisive. Leftists blame uneven distribution on outside factors, such as poor education and corporate misconduct. Conservatives,

meanwhile, tend to view these differences as a fair consequence of an individual's choices and abilities. These beliefs have little to do with personal wealth: Mr Tuschman cites a California survey in which the poorest respondents were the most likely to say people get what they deserve, and were also the most religious. Yet he fails to explain properly why this might be.

The last section gauges hard-wired levels of altruism. Most people are kinder to others in the same tribe—political party, race, nationality, and the like. And motivations for such generosity often relate to a desire for status. Yet Mr Tuschman never sufficiently explains how altruism is either liberal or conservative.

Indeed, the author's efforts to use "hard science" to illuminate partisanship often run aground. This book is long on juicy studies but short on insight. The political world Mr Tuschman describes tends to be remarkably binary and easily classifiable. Many of his examples come from those on the political fringes, such as Glenn Beck, a populist libertarian, and a group called the White Aryan Resistance. Meanwhile voters who occupy the middle ground get little credit for their unpredictability.

This may be because moderates do not sit comfortably in the political narrative of biological determinists like Mr Tuschman. In his view votes, like morals and values, have little to do with one's capacity to reason and improve. Nowhere does he mention the rationale behind centrism, or why moments of extreme polarisation are often short-lived. To answer these questions, Mr Tuschman would need to return to the philosophers he overlooks. Darwin can help explain a lot, but not everything. ■

## The natural world

## Fields of dreams

**Four Fields.** By Tim Dee. Jonathan Cape; 278 pages; £18.99

ALL fields are a life in waiting, writes Tim Dee in this mesmerising book. In their ubiquity, fields have become ordinary, the "green crayon-line across the bottom of every child's drawing". Few notice these functional acres of earth.

Written in the same lyrical prose as "The Running Sky", Mr Dee's acclaimed work about birds and bird-watching, his new book tells the story of four fields around the world: grazing land wrung from a mud-squelchy fen at the bottom of his Cambridgeshire garden; the scratchy, sawtooth scrub of an old tobacco field in Zambia; blood-marinated grassland at Little Bighorn in Montana; and a deserted, ruined meadow in the exclusion zone of Chernobyl in Ukraine.

His home fenland provides the book's structure, much as a hedge or fence contains the promise of a field. Mr Dee tantalisingly captures its seasonal flavours: the "white razorlight" of a winter fen padded with snow; the "wedding cakes of cumulus" that fill spring's open skies; the hot nettle-scented air of summer; the autumn winds that scatter thistle seeds in a

"silent, spreading, milky broadcast".

He describes the other fields with equal eloquence. In Zambia relentless bush advances over a once lush tobacco field; new saplings march among old termite mounds; pythons thicken lazily beneath knotted branches. At Little Bighorn, famous for the 1876 battle in which George Armstrong Custer was killed, green ravines wander through "buttery hills under a bone-yellow sky" and grasses "scribble at the death markers on the battlefield".

However, it is at Chernobyl, where in 1986 a reactor at the nuclear power station exploded, that man's influence on the earth's surface is at its most poignant. Here radiation has left the land flat and bleak for miles, triggering mutations in flora and fauna and leaving everything ill. Death "moved as an absolute master through these woods and fields, armed solely with itself".

"Four Fields" is about far more than pieces of earth; it is a summary of humanity's aspirations. "All fields are places of outlasting transience," Mr Dee writes. "They reset time. Each has a past but each lives in the present; each has a biography but is still a work in progress."



Which way to Westminster?



Pope Francis and Argentina

## Days of penance

**Pope Francis: Untying the Knots.** By Paul Vallely. Bloomsbury; 240 pages; £12.99. To be published in America in September; \$20.95

ARGENTINA has known bloody internal strife, so an event that triggers a surge in national pride can be nicely unifying. When Cardinal Jorge Mario Bergoglio, leader of the nation's Catholics, became Pope Francis, Diego Maradona, an ex-footballer and fellow national hero, spoke for many compatriots when he cracked: "The God of soccer is Argentine, and now the pope is too."

But not everybody joined the applause. Some Catholics who knew him at earlier stages and bore grudges refused to participate in the chorus of approval for the "barefoot" pope. One high-ranking Hispanic churchman claimed that Father Bergoglio, who was Argentina's senior Jesuit between 1973 and 1979, used his "aura of spirituality to obtain power". Yet many old acquaintances concede that the modest style of the new pope is not some newly adopted pose, but was a central feature of his most recent job as archbishop of Buenos Aires.

Paul Vallely, a British writer on religion, tries to tease out these paradoxes in a professionally, if rapidly, researched book. He presents a pope who made serious mistakes in early life but repented deeply for them. Like all churchmen in Argentina, the young Father Bergoglio faced giant moral tests during the dictatorship of 1976-83—and the promising young cleric partly failed, in Mr Vallely's view. But that, it seems, was not the end of his spiritual story. The future pontiff's outlook changed during a period when he was far from the limelight: as a mature student in Germany in 1986, and then as a priest in the provincial Argentine city of Córdoba.

By the time he re-entered high church politics in the 1990s, he was a chastened man. That raises the question of how much cause he had to feel humbled. Any assessment of the young Father Bergoglio's record leads to questions over two radical Jesuit priests, Orlando Yorio and Franz Jalics, who worked in the slums in Buenos Aires when the junta took power. They were seized (along with six other church people who vanished without trace) in May 1976, tortured and then released after five months. As Mr Vallely recalls, the pair had quarrelled bitterly with Father Bergoglio in the preceding months, to the point of being expelled from (others say resigning from) their religious order. The quarrel was unsurprising, Mr Vallely



And for my next trick

says, as Father Bergoglio got the senior Jesuit job while riding a wave of conservative protest against a radical predecessor.

Supporters of Father Bergoglio insist that he worked tirelessly to secure the captured priests' release and so saved their lives. But the hard question is whether he left them vulnerable by withdrawing their licence to say Mass and by blocking their transfer to another parish. In Mr Vallely's view, Father Bergoglio endangered the two priests by signalling his disapproval of them in public.

The family of Father Yorio, who died in 2000, still nurses hard feelings. As for Father Jalics, he is now living in Germany. Having survived his captivity by endlessly repeating the "Jesus prayer"—"Lord Jesus Christ, Son of God, have mercy on me, a sinner"—he has joined a closed monastic order. Although he had harsh things to say about his ex-boss in the 1990s, the two men have since had a deep personal reconciliation. Mr Vallely writes that Father Bergoglio underwent years of spiritual labour, contemplating his own sinfulness, before he was ready for this rapprochement.

No biography, however diligent, can capture someone's interior life. But what this book does demonstrate is that Pope Francis is a tougher, more complex figure than meets the eye. A turbulent life has given the pontiff a subtle sense of the realities of power, and the courage to act on it. Since becoming pope in March, he has taken three separate initiatives to clean up the moral and financial corruption afflicting the Vatican. Anybody who reads this book will eagerly await his next move. ■

Commemorating Crécy

## Garner's order

**Edward III and the Triumph of England.** By Richard Barber. Allen Lane; 672 pages; £30

IT APPEARS on each copy of the *Times*, and above every courtroom in England and Wales. It is the motto of the Canadian Senate and of Commonwealth army regiments. The phrase "*Honi soit qui mal y pense*" adorns a garter that loops around the British royal coat of arms. Both familiar and foreign, it lurks in the crepuscular recesses of the British mind.

It means: "Shamed be he who thinks evil of it." The "it" in question is believed to be a reference to Edward III's claim to the French throne, which in 1337 sparked the Hundred Years War between England and France. The motto's appearance coincided with the founding of a society of knights, now known as the Order of the Garter. In his scholarly examination of the order, Richard Barber contends that it was created to commemorate Edward's victory against the French at Crécy in 1346 and the capture of Calais a year later, both staples of the English history curriculum.

If Mr Barber is right, then the motto has several meanings. It is not simply a challenge to those who denied Edward's right to the French crown over that of Philip VI. It is also a reference to Edward's shamed French opponents in the wake of Crécy, and a riposte to parliamentary critics of the wartime taxes that Edward had raised to finance his ambitious campaign.

This was the first of only two full-scale seaborne invasions of France (the second came almost 600 years later). More than 1,000 ships made up the medieval flotilla, many of them fishing vessels, carrying a force of 13,600 men. Thousands of bows and arrows were made; countless carts were loaded onto the ships to move the stores once in France; and the ships were fitted with makeshift stalls to carry horses.

Royal officials travelled throughout England buying food at fixed prices. The great and the good ate better than ordinary soldiers, on salted pork and beef, fresh meat foraged during the march through France, and fish caught by the king's fishermen. The provisions included 130,000 gallons of wine, largely because it was not safe to drink water.

Once in France, Edward's aim was to provoke Philip into battle, something he fi- ►►

**Correction:** In our review of Amanda Ripley's book "*The Smartest Kids in the World*" ("Best and brightest", August 17th) we repeated the author's assertion that "only half" of Poland's rural adults had completed primary school by 2000. In fact half of rural adults had completed no more than primary school. Sorry.



►nally managed on August 26th 1346 at Crécy. His tactics may have been less heroic than schoolboys are taught—the French seem to have become clogged by a defensive wall of English carts. But the subsequent siege and capture of Calais gave England a foothold in northern France that would not be relinquished until 1558.

On his return to England, Edward commemorated these triumphs by founding the Company of the Garter, a society of knights headed by himself and his eldest son, the Black Prince. It was intended to be a religious society more than a military one, Mr Barber argues. Their chief duty was to attend an annual service in a private chapel in Windsor on St George's Day.

The society nonetheless created a cohe-

sive central command around the king. Edward III's greatest achievement was won at home, in the loyalty of England's lords throughout his reign. The new company was a vital part of this bond. Of the 35 knights appointed as companions between the order's foundation and 1360, all but two were present at the siege of Calais. The Garter knights were also at the core of the next great English victory in France, won by the Black Prince at Poitiers in 1356.

The company would go on to emphasise honour more than military prowess. But unlike other orders of the time, it would survive. The knights of the Garter, now headed by the queen, still troop into the chapel at Windsor each year. And its motto has become ubiquitous. ■

## Armenian culture in Turkey

# From the ashes

DIYARBAKIR

**Turkish Armenians are beginning to celebrate—and commemorate—their past**

A DAINTY silver slipper, a hand-engraved copper bowl. Silva Ozyerli, an ethnic Armenian, runs a loving finger over these and other family treasures strewn across her dinner table in Istanbul. They are due to go on display at a new museum of Armenian culture in Ms Ozyerli's native city of Diyarbakir at the end of 2013.

The Armenian museum, the first of its kind in Anatolia, will be part of the newly restored Surp Giragos church complex (pictured). Its aim is to chronicle Armenian life in Diyarbakir, in Turkey's mainly Kurdish south-east, before 1915. That was the year when Ottoman troops and their Kurdish accomplices began slaughtering over 1m Armenians and other Christians across the country during what many historians say was the first genocide of the 20th century.

Turkey denies that mass killings took place, insisting that the Armenians had perished from hunger and disease during their forced march to the deserts of Syria. (The Ottoman government deported the Armenians, notionally for their safety, as the empire collapsed. Yet thousands were massacred as they marched, and countless others were killed before they set off.) Local school textbooks perpetuate this myth.

Granting permission to restore Surp Giragos is seen as part of a larger government campaign to placate diaspora Armenians, who have been lobbying governments around the world to recognise the genocide. When Surp Giragos reopened in 2011, after lying in ruins for more than 20 years, it became Turkey's first church to be revived as a permanent place of worship.

"The museum is a way of showing that

thousands of Armenians contributed to the city's wealth and culture," explains Ergun Ayik of the Surp Giragos Foundation, which runs the church. "People will look at the photographs, the objects, and wonder where did all these people go?"

Around 2m Armenians are believed to have lived in Turkey before the genocide. Now there are about 70,000. Survivors are scattered across the Middle East, Europe, America and Australia. Many more converted to Islam to carry on, but their numbers remain unknown. Osman Koker, a Turkish historian, reckons that more than half of Diyarbakir's population used to be non-Muslim, mainly Armenian Orthodox, but also Catholic, Syrian Orthodox and Jewish. "Now", says Mr Koker, "there is

practically none."

Yet a growing number of Turkish Armenians are reclaiming their heritage. In 2010 hundreds flocked to the island of Akdamar in the eastern province of Van to attend an inaugural mass at the newly restored Church of the Holy Cross. (The church is now a museum, but holds mass on religious holidays.) Turkey's culture ministry has obliged with a list of other ancient churches that it plans to restore, says Osman Kavala, a Turkish philanthropist who is helping to promote Turkish-Armenian reconciliation. And Armenian-language lessons, available since last year in Diyarbakir's historic Sur district, are increasingly popular among Turkey's so-called "invisible Armenians" who had abandoned their culture in order to survive. Abdullah Demirbas, the district's mayor, argues that the Kurds must also make amends for their complicity in the genocide.

Armenians applaud these efforts, even as they note a persistent strain of Turkish nationalism that perceives non-Muslim minorities as suspect. The government's conversion of several Greek Orthodox churches into mosques, together with its recent espousal of unabashedly Islamist rhetoric, heightens some concerns that efforts to appease Armenians are cynical and short-sighted.

But such worries were pleasantly absent during a recent afternoon in Surp Giragos, as tourists gazed at the church's repaired altars and onion-domed belfry (which had been destroyed by the Ottomans in 1916 because it dwarfed surrounding minarets). The church is drawing hundreds of people every day. "Many of them are Islamised Armenians like me," laughs Gafur Turkey of the Surp Giragos Foundation. "The truth about 1915 cannot be concealed," says Mr Ayik's daughter Pelin. "But as a young Armenian I don't want to be pitied as a victim. I am the proud torchbearer of a rich civilisation that not only has survived but continues to thrive." ■

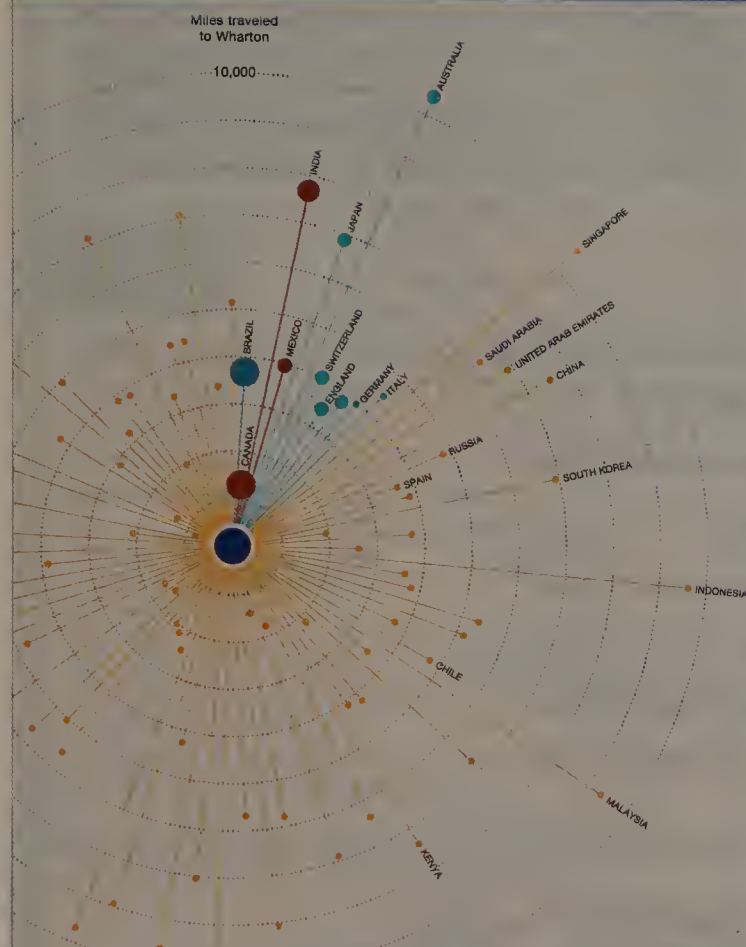


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<http://www.hbs.edu/research/faculty-recruiting/>

If there are materials that can only be sent in hard copy, please send them to the address below. If applying to more than one of the above listed units, please submit copies of these materials for each position.

Harvard Business School, Faculty Administration  
Attn: UNIT NAME Application  
Morgan Hall T25, Soldiers Field Road  
Boston, MA 02163

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The Oman Power and Water Procurement Company SAOC ("the OPWP") is responsible for procuring new capacity and output in the Sultanate of Oman in accordance with the requirements of the regulation and privatisation of the electricity and related water sector promulgated by Royal Decree 78/2004 as amended ("the Sector Law") and the OPWP licence.

OPWP is planning a new greenfield water desalination project in Qurayyat (south of Muscat) to have a water capacity of up to 46 MIGD. In advance of the Government Tender Board ([www.tenderboard.gov.om](http://www.tenderboard.gov.om)) releasing the Request for Qualification document, OPWP wishes to announce the intended process, to allow interested Development companies with a proven record in similar projects to submit a formal letter to register their interest with OPWP.

Note — this is not applicable to interested or potential EPC contractors.

Developers are encouraged to submit by e-mail ([qurayyat.iwp@omanpwp.com](mailto:qurayyat.iwp@omanpwp.com)) and fax (00968 24399946) a letter entitled "Expression of Interest for the Qurayyat IWP" to Oman Power and Water Procurement Company S.A.O.C.. The letter should clearly state the contact details of the representative person with e-mail address for the receipt of a notification of release of the tender documents by the Tender Board.

Alternatively, a letter may be submitted directly in a sealed envelope marked with Tender Title and deposited in the Tender Box at the OPWP Main Office located at Floor 5, Building 5, Muscat Grand Mall, Tilal Complex (Office), Al Khuwair Al Janubiyah, Muscat.

P.O. Box 1388, Postal Code 112 Ruwi, Sultanate of Oman  
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Notice No. 2011/Infra/12/18 Dated 06.08.2013

#### NOTICE FOR INVITING REQUESTS FOR PRE-QUALIFICATION (RFQ) FOR EXECUTION OF ELEVATED RAIL CORRIDOR BETWEEN OVAL MAIDAN/ CHURCHGATE - VIRAR

The existing RFQ document along with all the addendums is withdrawn. The document has been replaced by a fresh RFQ which is available at the Ministry's website: <http://www.indianrailways.gov.in/railwayboard>. Applicants are requested to download the same from the website.

The salient features of 63 kms long Oval Maidan/ Churchgate - Virar corridor are:

- » Implementation through PPP route.
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- » Debt and subordinate debt through some of the financial institutions.
- » Land parcels for real estate development.
- » Support from State Government.

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Executive Director/Traffic/PPP  
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InvestHK is the department of the Hong Kong Special Administrative Region Government responsible for Foreign Direct Investment, supporting overseas and Mainland businesses to set up and expand in Hong Kong.

InvestHK invites companies with experience in investment promotion, economic development, or international business development to submit an expression of interest for provision of the following services in one or more markets of Brazil, France, Russia (together with the CIS and Baltic States), South America (except Brazil), South Korea and Turkey:

- To act as a representative office of InvestHK and actively promote Hong Kong as a premier business location in Asia
- To identify target companies in priority sectors and markets through desk research, networking, attendance of conferences and exhibitions
- To respond to enquiries from potential investors by providing timely advice and practical assistance
- To develop and implement annual business plans for promoting inward investment to Hong Kong and to achieve key performance indicators
- To organise and support investment promotion visits by InvestHK head office teams
- To develop links and networks with business multiplier organisations and the media

Interested Companies based in the markets above are invited to email a short profile of their company highlighting their business capabilities, including consultancy experience in investment promotion, economic development, or international business development and business network in the specified market, in performing the aforementioned services to [IPConsultant@investhk.gov.hk](mailto:IPConsultant@investhk.gov.hk) in English by 2:00 pm, 5 September 2013 Hong Kong time; any late response will not be considered. Selected companies will be invited to submit a formal proposal with more detailed scope of services and other information.

Only shortlisted candidates will be notified. Companies which do not hear from InvestHK before 14 September 2013 should consider their bids unsuccessful.

For further information on InvestHK, please visit our website at [www.InvestHK.gov.hk](http://www.InvestHK.gov.hk)

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## Economic data

% change on year ago

	Gross domestic product			Industrial production latest	Consumer prices		Unemployment rate, %	Current-account balance		Budget balance % of GDP 2013 <sup>†</sup>	Interest rates, % 10-year gov't bonds, latest	Currency units, per \$	
	latest	qtr* 2013 <sup>†</sup>	2013 <sup>†</sup>		latest	2013 <sup>†</sup>		latest 12 months, \$bn	% of GDP 2013 <sup>†</sup>			Aug 21st	year ago
United States	+1.4 Q2	+1.7	+1.7	+1.4 Jul	+2.0 Jul	+1.5	7.4 Jul	-425.7 Q1	-2.7	-4.5	2.86	-	-
China	+7.5 Q2	+7.0	+7.5	+9.7 Jul	+2.7 Jul	+2.7	4.1 Q2 <sup>§</sup>	+211.6 Q2	+2.1	-2.1	3.99 <sup>§§</sup>	6.12	6.36
Japan	+0.9 Q2	+2.6	+2.0	-4.6 Jun	+0.2 Jun	+0.1	3.9 Jun	+54.1 Jun	+1.0	-8.3	0.74	97.7	79.4
Britain	+1.4 Q2	+2.4	+1.0	+1.3 Jun	+2.8 Jul	+2.6	7.8 May <sup>††</sup>	-96.7 Q1	-2.9	-7.6	3.02	0.64	0.63
Canada	+1.4 Q1	+2.5	+1.8	-0.1 May	+1.2 Jun	+1.4	7.2 Jul	-62.3 Q1	-3.0	-2.8	2.76	1.04	0.99
Euro area	-0.7 Q2	+1.1	-0.6	+0.3 Jun	+1.6 Jul	+1.5	12.1 Jun	+247.1 Jun	+1.8	-3.3	1.87	0.75	0.80
Austria	-0.7 Q1	+2.1	+0.5	-1.1 May	+2.0 Jul	+1.7	4.6 Jun	+9.7 Q1	+2.3	-3.0	2.31	0.75	0.80
Belgium	-0.6 Q1	-0.1	-0.1	+2.5 May	+1.5 Jul	+1.1	8.7 Jun	-8.7 Mar	-0.6	-3.1	2.77	0.75	0.80
France	+0.3 Q2	+1.9	-0.3	-0.2 Jun	+1.1 Jul	+1.1	11.0 Jun	-46.4 Jun	-2.0	-4.3	2.43	0.75	0.80
Germany	+0.5 Q2	+2.9	+0.3	+2.1 Jun	+1.9 Jul	+1.6	6.8 Jul	+244.5 Jun	+6.6	-0.3	1.87	0.75	0.80
Greece	-4.6 Q2	na	-5.5	+0.4 Jun	-0.7 Jul	-0.5	27.6 May	-3.4 Jun	-0.8	-5.3	10.15	0.75	0.80
Italy	-2.0 Q2	-1.0	-1.9	-2.1 Jun	+1.2 Jul	+1.5	12.1 Jun	+5.9 Jun	+0.3	-3.5	4.36	0.75	0.80
Netherlands	-1.8 Q2	-0.7	-1.1	-1.0 Jun	+3.1 Jul	+2.3	8.7 Jul	+85.1 Q1	+9.6	-3.9	2.28	0.75	0.80
Spain	-1.7 Q2	-0.4	-1.6	-4.7 Jun	+1.8 Jul	+1.5	26.3 Jun	+4.1 May	+0.5	-7.2	4.48	0.75	0.80
Czech Republic	-3.0 Q1	+2.8	-0.7	-5.4 Jun	+1.4 Jul	+1.7	7.5 Jul <sup>§</sup>	-4.8 Q1	-1.9	-2.9	2.39	19.3	19.8
Denmark	-0.7 Q1	-0.2	+0.3	-2.6 Jun	+0.6 Jul	+1.0	5.8 Jun	+18.2 Jun	+5.2	-2.6	2.03	5.58	5.97
Hungary	+0.5 Q2	+0.4	+0.4	+1.5 Jun	+1.7 Jul	+2.2	10.3 Jun <sup>§††</sup>	+3.0 Q1	+1.9	-3.5	6.39	224	221
Norway	+2.6 Q2	+3.4	+2.2	-4.0 Jun	+3.0 Jul	+1.9	3.4 May <sup>††</sup>	+62.2 Q1	+13.8	+13.1	2.87	6.06	5.88
Poland	+0.8 Q2	na	+1.0	+6.3 Jul	+1.1 Jul	+1.0	13.1 Jul <sup>§</sup>	-9.3 Jun	-2.5	-3.8	4.47	3.17	3.25
Russia	+1.2 Q2	na	+2.2	-0.8 Jul	+6.5 Jul	+6.4	5.3 Jul <sup>§</sup>	+47.9 Q2	+2.5	-0.6	7.84	33.0	31.7
Sweden	+0.6 Q2	-0.2	+1.3	-4.0 Jun	+0.1 Jul	+0.2	9.1 Jun <sup>§</sup>	+37.5 Q1	+7.1	-1.3	2.38	6.56	6.65
Switzerland	+1.1 Q1	+2.3	+1.4	+3.0 Q1	nil Jul	-0.3	3.2 Jul	+77.6 Q1	+12.5	+0.2	1.11	0.92	0.96
Turkey	+3.0 Q1	na	+3.4	+3.0 Jun	+8.9 Jul	+7.4	8.8 May <sup>§</sup>	-53.6 Jun	-6.8	-2.5	9.63	1.97	1.79
Australia	+2.5 Q1	+2.2	+2.5	+3.6 Q1	+2.4 Q2	+2.4	5.7 Jul	-51.1 Q1	-2.8	-1.3	3.97	1.11	0.95
Hong Kong	+3.3 Q2	+3.2	+2.6	+0.5 Q1	+6.9 Jul	+4.1	3.3 Jul <sup>††</sup>	+5.2 Q1	+0.9	+2.0	2.53	7.75	7.76
India	+4.8 Q1	+0.4	+5.5	-2.2 Jun	+9.6 Jul	+9.6	9.9 2012	-87.8 Q1	-4.5	-5.1	8.42 <sup>†††</sup>	64.3	55.5
Indonesia	+5.8 Q2	na	+5.8	+3.4 Jun	+8.6 Jul	+7.7	5.9 Q1 <sup>§</sup>	-28.8 Q2	-2.4	-2.9	na	10,775	9,490
Malaysia	+4.3 Q2	na	+4.5	+3.3 Jun	+2.0 Jul	+1.8	2.8 Jun <sup>§</sup>	+14.2 Q2	+5.8	-4.3	3.94	3.29	3.13
Pakistan	+6.1 2013 <sup>**</sup>	na	+6.1	+3.6 May	+8.3 Jul	+7.5	6.0 2011	-2.3 Q2	-1.0	-8.8	12.10 <sup>†††</sup>	103	94.5
Singapore	+3.8 Q2	+15.5	+2.3	-5.9 Jun	+1.8 Jun	+2.4	2.1 Q2	+49.9 Q2	+19.0	+0.7	2.59	1.28	1.25
South Korea	+2.3 Q2	+4.4	+2.8	-2.6 Jun	+1.4 Jul	+1.7	3.1 Jul <sup>§</sup>	+59.2 Jun	+3.5	+0.5	3.67	1,117	1,131
Taiwan	+2.5 Q2	+2.3	+2.3	-0.4 Jun	+0.1 Jul	+1.3	4.2 Jul	+52.8 Q2	+11.7	-1.9	1.65	30.0	29.9
Thailand	+2.6 Q2	-1.4	+4.4	-3.5 Jun	+2.0 Jul	+2.5	0.8 May <sup>§</sup>	-1.4 Q2	+0.1	-2.8	3.96	31.8	31.4
Argentina	+3.0 Q1	+6.3	+4.3	+3.9 Jun	— ***	—	7.2 Q2 <sup>§</sup>	-1.1 Q1	+0.1	-2.7	na	5.60	4.62
Brazil	+1.9 Q1	+2.2	+2.0	+3.1 Jun	+6.3 Jul	+6.5	6.0 Jun <sup>§</sup>	-72.5 Jun	-3.2	-3.1	11.61	2.42	2.02
Chile	+4.1 Q2	+1.9	+4.5	+2.3 Jun	+2.2 Jul	+1.8	6.2 Jun <sup>§††</sup>	-11.3 Q2	-5.0	+0.3	5.24	516	482
Colombia	+2.8 Q1	+1.4	+4.2	-2.5 May	+2.2 Jul	+2.1	9.2 Jun <sup>§</sup>	-13.3 Q1	-3.4	-0.6	7.20	1,929	1,815
Mexico	+1.5 Q2	-2.9	+2.7	-2.7 Jun	+3.5 Jul	+3.6	5.1 Jun	-14.4 Q1	-1.4	-1.8	7.75	13.1	13.1
Venezuela	+0.7 Q1	-9.7	-1.1	-11.1 Mar	+42.6 Jul	+39.1	6.9 Jun <sup>§</sup>	+7.1 Q1	+0.8	-8.6	na	6.29	4.29
Egypt	+4.9 Q1	na	+2.0	-4.6 Jun	+10.3 Jul	+9.0	13.3 Q2 <sup>§</sup>	-5.4 Q1	-1.9	-13.0	na	6.99	6.08
Israel	+4.8 Q2	+5.1	+2.7	-2.6 Jun	+2.2 Jul	+1.8	6.2 Q2	+3.7 Q1	+2.1	-4.5	3.99	3.57	4.01
Saudi Arabia	+5.1 2012	na	+3.5	na	+3.7 Jul	+4.0	5.5 2012	+151.4 Q1	+16.0	+4.1	na	3.75	3.75
South Africa	+1.9 Q1	+0.9	+2.1	+0.7 Jun	+6.3 Jul	+5.6	25.6 Q2 <sup>§</sup>	-24.6 Q1	-6.7	-4.8	8.33	10.2	8.22

Source: Haver Analytics. \*\*% change on previous quarter, annual rate. <sup>†</sup>The Economist poll or Economist Intelligence Unit estimate/forecast. <sup>§</sup>Not seasonally adjusted. <sup>†</sup>New Series. <sup>\*\*</sup>Year ending June. <sup>††</sup>Latest 3 months. <sup>†††</sup>3-month moving average. <sup>§§§</sup>5-year yield <sup>\*\*\*</sup>Official number not reliable; The State Street PriceStats Inflation Index, July 21.11%; year ago 25.45% <sup>††††</sup>Dollar-denominated bonds.

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## Markets

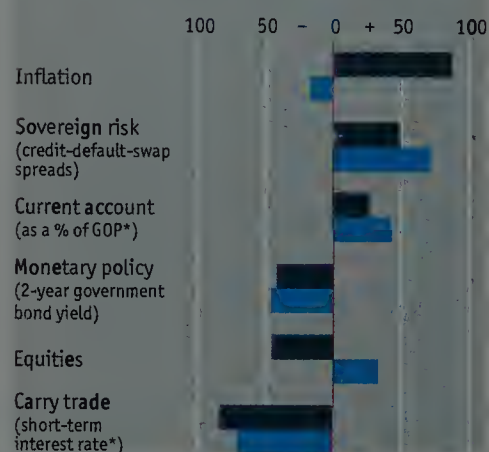
	Index Aug 21st	% change on		
		one week	in local currency	in \$ terms
United States (DJIA)	14,897.6	-2.9	+13.7	+13.7
China (SSEA)	2,169.5	-1.3	-8.7	-7.1
Japan (Nikkei 225)	13,424.3	-4.5	+29.1	+14.3
Britain (FTSE 100)	6,390.8	-3.0	+8.4	+4.6
Canada (S&P TSX)	12,573.1	-0.5	+1.1	-3.6
Euro area (FTSE Euro 100)	910.8	-2.6	+6.3	+7.9
Euro area (EURO STOXX 50)	2,774.6	-2.7	+5.3	+6.8
Austria (ATX)	2,457.0	-2.0	+2.3	+3.8
Belgium (Bel 20)	2,750.7	-2.8	+11.1	+12.7
France (CAC 40)	4,015.1	-2.4	+10.3	+11.9
Germany (DAX)*	8,285.4	-1.8	+8.8	+10.4
Greece (Athex Comp)	903.8	-5.6	-0.5	+1.0
Italy (FTSE/MIB)	16,877.9	-3.4	+3.7	+5.2
Netherlands (AEX)	367.5	-3.2	+7.2	+8.8
Spain (Madrid SE)	858.6	-3.7	+4.1	+5.6
Czech Republic (PX)	957.7	-2.5	-7.8	-8.9
Denmark (OMXCX)	517.8	-0.2	+14.4	+16.1
Hungary (BUX)	18,101.5	-2.8	-0.4	-1.9
Norway (OSEAX)	541.0	-1.1	+10.3	+1.3
Poland (WIG)	49,128.1	-2.2	+3.5	+1.0
Russia (RTS, \$ terms)	1,312.5	-3.2	-7.0	-14.0
Sweden (OMXS30)	1,226.1	-2.9	+11.0	+10.0
Switzerland (SMI)	7,887.1	-2.4	+15.6	+15.0
Turkey (ISE)	69,709.4	-7.8	-10.9	-19.3
Australia (All Ord.)	5,090.3	-1.0	+9.1	-5.8
Hong Kong (Hang Seng)	21,817.7	-3.2	-3.7	-3.8
India (BSE)	17,905.9	-7.5	-7.8	-21.4
Indonesia (JSX)	4,218.4	-10.2	-2.3	-12.6
Malaysia (KLSE)	1,744.9	-2.7	+3.3	-4.1
Pakistan (KSE)	23,015.3	-2.5	+36.1	+27.9
Singapore (STI)	3,109.0	-4.3	-1.8	-6.3
South Korea (KOSPI)	1,867.5	-2.9	-6.5	-10.4
Taiwan (TWI)	7,832.7	-1.5	+1.7	-1.4
Thailand (SET)	1,355.1	-7.2	-2.6	-6.3
Argentina (MERV)	3,852.4	-0.8	+35.0	+18.5
Brazil (BVSP)	50,405.2	-1.0	-17.3	-29.9
Chile (IGPA)	17,998.0	-3.0	-14.6	-20.7
Colombia (IGBC)	13,707.1	-1.5	-6.9	-14.7
Mexico (IPC)	41,458.2	-2.3	-5.1	-6.2
Venezuela (IBC)	1,293,082.0	+0.5	+174	na
Egypt (Case 30)	5,389.6	-2.9	-1.3	-10.1
Israel (TA-100)	1,097.2	-0.9	+4.6	+9.3
Saudi Arabia (Tadawul)	8,214.9	+1.6	+20.8	+20.8
South Africa (JSE AS)	42,762.4	-0.6	+8.9	-9.7

## Exchange rates

Deutsche Bank, the world's biggest forex trader, analyses the correlation between currency movements (against the dollar) and economic and financial variables. For the rich economies of the G10 the correlation has recently been strongest with inflation; in emerging markets sovereign risk (measured by credit-default-swap spreads) stands out. Countries with large current-account deficits, like Brazil and India, have seen their currencies slide in recent months. Currencies were negatively correlated with the level of short-term interest rates (a proxy for carry trade, whereby investors borrow in low-yielding currencies to fund purchases in higher-yielding ones): high rates coincided with weakening currencies.

Correlation between three-month changes in exchange rates against the dollar and three-month changes in:

August 19th 2013, % ■ G10 ■ Emerging markets



Source: Deutsche Bank

\*Latest levels

## Other markets

	Index Aug 21st	% change on		
		one week	in local currency	in \$ terms
United States (S&P 500)	1,642.8	-2.5	+15.2	+15.2
United States (NAScomp)	3,599.8	-1.9	+19.2	+19.2
China (SSEB, \$ terms)	247.8	-0.7	-0.5	+1.2
Japan (Topix)	1,121.7	-4.2	+30.5	+15.5
Europe (FTSEurofirst 300)	1,207.7	-2.6	+6.5	+8.1
World, dev'd (MSCI)	1,489.7	-2.4	+11.3	+11.3
Emerging markets (MSCI)	924.2	-4.5	-12.4	-12.4
World, all (MSCI)	367.5	-2.7	+8.2	+8.2
World bonds (Citigroup)	902.8	-0.1	-4.4	-4.4
EMBI+ (JPMorgan)	630.0	-2.9	-11.4	-11.4
Hedge funds (HFRX)	1,190.6 <sup>§</sup>	-0.4	+3.7	+3.7
Volatility, US (VIX)	15.9	+13.0	+18.0	(levels)
CDSs, Eur (iTRAXX) <sup>†</sup>	106.0	+12.0	-19.5	-18.3
CDSs, N Am (CDX) <sup>†</sup>	84.2	+11.5	-20.9	-20.9
Carbon trading (EU ETS) €	4.4	+0.2	-34.8	-33.9

Sources: Markit; Thomson Reuters. \*Total return index.

<sup>†</sup>Credit-default-swap spreads, basis points. <sup>§</sup>Aug 20th.

**Indicators** for more countries and additional series, go to: [Economist.com/indicators](http://Economist.com/indicators)

## The Economist commodity-price index

2005=100

	Aug 13th	Aug 20th*	% change on	
			one month	one year
<b>Dollar Index</b>				
All Items	166.8	166.3	-1.6	-14.7
Food	184.2	183.1	-5.3	-23.9
<b>Industrials</b>				
All	148.8	148.9	+3.5	+0.7
Nfa <sup>†</sup>	159.1	158.9	+1.2	+1.6
Metals	144.4	144.7	+4.7	+0.3
<b>Sterling Index</b>				
All items	196.3	193.0	-3.5	-14.2
<b>Euro Index</b>				
All items	156.7	154.0	-3.1	-20.7
<b>Gold</b>				
\$ per oz	1,326.7	1,373.7	+2.9	-16.2
<b>West Texas Intermediate</b>				
\$ per barrel	106.6	105.2	-2.0	+8.9

Sources: Bloomberg; CME Group; Cotlook; Darnemann & Curl; FT; ICCO; ICO; ISO; Jackson Rice; LME; NZ Wool Services; Thompson Lloyd & Ewart; Thomson Reuters; Uner Barry; WSJ. \*Provisional <sup>†</sup>Non-food agriculturals.

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## Jacques Vergès

Jacques Vergès, defence lawyer, died on August 15th, aged 88 or 89

“SALAUD” was a good word. It hissed through the air and landed smack on the face, like a gob of mud. Plenty of people called Jacques Vergès a bastard, and he didn’t care. Perhaps he really was one, his date of birth obscured by his father to hide an adulterous affair. He wasn’t bothered. Nothing touched him, including the bullets he knew were sent his way by the French secret service. Teeth clamped round a Cuban cigar, he would lean back and give any questioner his cool, quizzical, oriental stare. The blinds in his book-stuffed office were kept drawn, and out of the dim light loomed a legion of carved figures given by the African dictators he had defended. A crystal snake on his desk opened its jaws to strike; it reminded him of the snake of Amazonian myth, studded with the eyes of the men it had swallowed.

All his clients, too, he said, were indelibly embedded in him. Klaus Barbie, “the butcher of Lyon”, an ss captain charged with 341 counts of killing or deportation; Carlos the Jackal, accused of multiple terrorist acts against France and Israel; Khieu Samphan, titular head of the Khmer Rouge regime in Cambodia, which killed perhaps 2m people; members of the Baader Meinhof gang. Anyone could apply. He offered his services to Slobodan Milosevic, the dictator of Serbia, and made ready to defend

Saddam Hussein. Hitler? Sure. He would even—a dry smile—defend George W. Bush, as long as he pleaded guilty.

His method in the courtroom was simple, but explosive. He accused the accuser. “Rupture” was his word for this: a recognition that, like Antigone facing Creon, the judge and the defendants shared no common values. This was war. He had learned the technique in boyhood, when his father taught him to throw stones at boys who bullied him. In Algeria in the 1950s he refined it, as a brand-new lawyer imbued with communism and passionate anti-colonialism, when he represented FLN terrorists fighting for independence from France. They had planted bombs, but what was that compared with the injustices and discrimination daily meted out by the French? (He knew of those first-hand, having grown up mixed-race in the French colony of Réunion, and recalling his father’s disgrace for marrying a Vietnamese woman.) Equally, what were Carlos’s crimes, compared with Israel’s long oppression of the Palestinians? In Barbie’s case, hadn’t the Vichy government freely collaborated with the Nazis? In Saddam’s, hadn’t America given him the weapons with which he killed his own people?

His outrageous methods encouraged the thought that he might be a co-conspira-

tor. As Barbie’s only lawyer, against 40 prosecutors on the other side, he called him *mon capitaine*, stressed how Christian he was, and sang “Lili Marlene” with him in his cell. He described Khieu Samphan as a gentle idealist, and mocked the idea of genocide in his country. There were so many meetings with Carlos that he was suspected of being part of his network. Nothing was pinned on him. From 1970 to 1978 he disappeared: the wind had whispered to him, “Leave!”, he said, and he had walked out on family, job and country, returning to Paris penniless and battle-hardened. Had he been helping some vile regime in Cambodia, Congo, Syria? He would never say. He had simply “crossed to the other side of the mirror”.

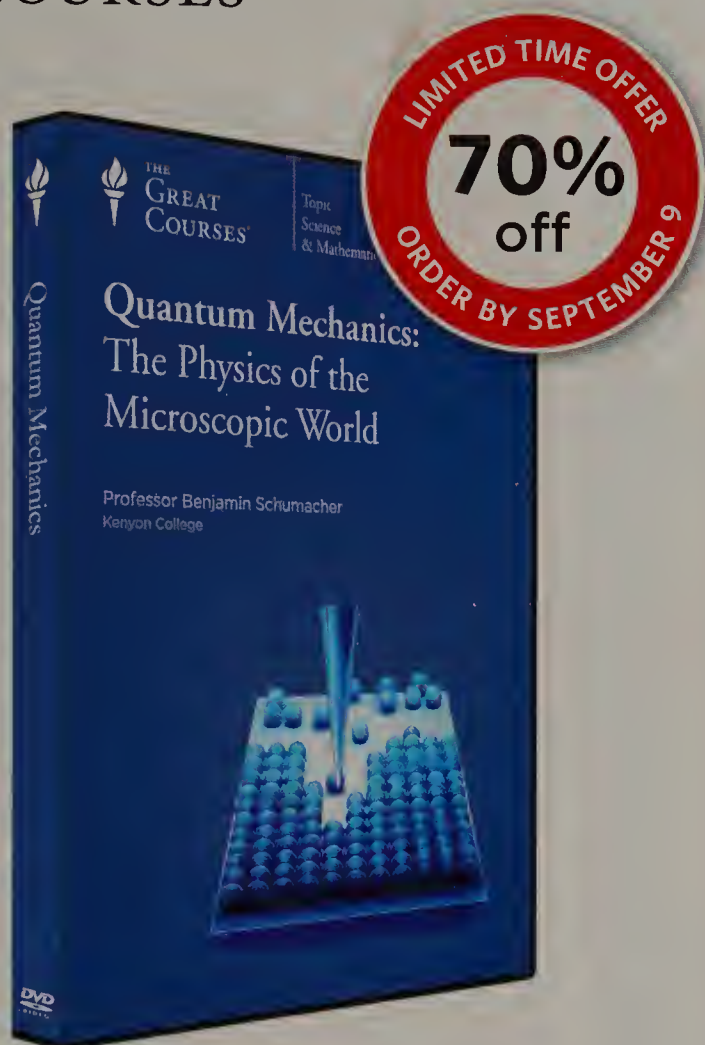
### La chambre de Voltaire

From day to day he tried to do the same. To cross to the other side and enter his client’s world, whether pimp or mass-murderer, peasant or politician, brainbox or idiot. To empathise with someone—who, after all, had two eyes like himself, two hands, who listened to music, who loved—and ask whether he himself, given the circumstances, might have done the same. Why had it happened? How? *Ce mec, c’est moi*. His one principle was to have no principles, he said, though critics could find many of a Marxist and anti-Israeli kind. The only morality guiding him was his heart’s caprices. There was no such thing as absolute evil: the worst criminal, he wrote, had a secret garden in his heart, and the most honest man a nest of reptiles.

His no-holds-barred defences of famous villains seldom got them off, but they won him fame. He enjoyed it hugely. The unpredictable “magic” of each trial, the chase after truth (never found, in his experience), the exhilaration of his rage against “illegal” international tribunals and the hypocrisies of America, energised him as nothing else could. His life was a drama in which he was the ever-battling, questioning outsider, like Dostoyevsky’s Dimitri Karamazov or Stendhal’s Julien Sorel. In 2008 he wrote a play about himself and starred in it at the Théâtre de la Madeleine in Paris. No one thought that odd. He died in Voltaire’s bedroom: that, too, suited his uncompromising defence of hateful things.

Much of his work was humdrum, in fact: defending bankrupts, thieves, petty criminals, usually for no fee. He had never seen the law as a vocation. History was his first love, and he still dreamed sometimes of deciphering Etruscan or Linear A, unfolding the secrets of mysterious civilisations. Yet the greatest mystery was man himself—where he had come from, where he was going, why he did what he did. And in so far as anything was sacred to godless Maître Vergès, it was man: *un salaud*, perhaps, but, like him, *un salaud lumineux*. ■





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